CONGRESSIONAL BUDGET PROCESS

HEARINGS

BEFORE THE

TASK FORCE ON
THE BUDGET PROCESS

OF THE

COMMITTEE ON RULES
HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

SECOND SESSION

TO REVIEW THE CONGRESSIONAL BUDGET PROCESS SINCE THE ADOPTION OF THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

SEPTEMBER 15, 17, 23, and 29, 1982

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CONGRESSIONAL BUDGET PROCESS

WEDNESDAY, SEPTEMBER 15, 1982

House of Representatives,
Task Force on the Budget Process,
Committee on Rules,
Washington, D.C.

The task force met, pursuant to call, at 10:20 a.m., in room H-313, the Capitol, Hon. Anthony C. Beilenson (chairman of the task force) presiding.

Present: Representatives Beilenson, Bonior, Hall, Jones, Panetta, Rhodes, and Regula.

OPENING STATEMENT OF HON. ANTHONY C. BEILENSON, CHAIRMAN OF THE TASK FORCE ON THE BUDGET PROCESS

Mr. **Beilenson**. Today the Task Force on the Budget Process is holding the first of a series of hearings on a subject which affects nearly all the legislative activity here in Congress—the budget process. Additional hearings are scheduled for Friday, September 17; Thursday, September 23; and Wednesday, September 29, during which time we hope to further our understanding of the issues involved in this broad and complex topic.

We appreciate the fact that so many of our colleagues are taking the time during these busy last days of the session to share with us their views on various budgeting issues and their ideas about how some specific problems might be resolved. We are eager to hear from our witnesses but, before we do, I would like to talk briefly about the purpose of our task force and the work we have been doing up to this point.

In March of this year, Rules Committee Chairman Richard Bolling appointed six of us on the Rules Committee to review some of the problems that have emerged since Congress adopted the Congressional Budget and Impoundment Control Act in 1974, and to make recommendations to the full committee.

In addition, Chairman Bolling also asked nine members from Budget and other committees to serve on the task force so that we could study the subject from a broader perspective than would be possible with only Rules Committee members. Although Rules has jurisdiction over the Budget Act, other committees, especially Budget, have the bulk of responsibility for carrying out the provisions of the act and, as a result, their members are more familiar with some of the specific problems involved in the budget process than we are on the Rules Committee.

Our task force has operated as an informal working group. We have spent the last few months holding roundtable work sessions at which we took a careful look at budget process problems and discussed the merits and drawbacks of various proposals to change the way in which Congress develops its budgetary, spending, and revenue legislation.

However, we have not yet reached any conclusions about what changes, if any, should be made. In fact, we wanted to wait until we heard from our colleagues before making any decisions.

With these hearings this month, we hope to learn how other Members of Congress feel about the process and to gain new insight into issues we have found difficult to resolve. For instance, is there a way to lessen our growing need to resort to continuing resolutions to fund a large portion of Government activities? Can we process legislation in a more timely manner without impeding the careful deliberation needed to produce well-balanced and well-thought-out legislation? Can we better enforce our budget decisions without hindering the flexibility we need to deal with a constantly changing economy?

We recognize that the budgeting issues before us do not lend themselves to simple resolution. No process, regardless of how it looks on paper, will work well unless Congress has the will to make it work. Nevertheless, we hope to find ways to improve the process, and hope that these hearings will help us to reach that goal.

Does anyone else care to make a comment at the beginning? He or she is certainly welcome to do so. Mr. Jones?

Mr. JONES. I would just make a short comment, Mr. Chairman. I want to commend you for the thorough effort that you and the staff have made in this area so far. Yesterday in the Budget Committee, as you know, they had hearings on the combined subjects of the budget process and the constitutional amendment to balance the budget. Those were helpful hearings, and our members have been provided helpful information. I congratulate you on holding these hearings.

Mr. BEILENSON. Thank you, Mr. Jones. Perhaps whatever conclusions your group reaches, you will share with us.

Our first witness today is Hon. Norman Mineta, a Representative from California, member of the Budget Committee and a good friend of all of us. Mr. Mineta?

STATEMENT OF HON. NORMAN Y. MINETA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. MINETA. Mr. Chairman, I want to thank you very, very much for the leadership that you are showing by undertaking this very difficult task of examining the Budget Act as the chairperson of this Rules Committee Task Force on the Budget Process.

My full statement is before you, and I would request that that be made a part of the record.

Mr. BEILENSON. Without objection, the entire statement will be part of the record.

Mr. MINETA. As you are very well aware, I have a great deal of interest in the budget process. As chairman of the Budget Committee Task Force on the Budget Process for the past 4 years, I have conducted several oversight hearings on the Budget Act, and I appreciate this opportunity to present my proposals for reforming the Budget Act.

Since its inception in 1975, the budget process has been faced with a series of challenges, but none of these challenges were as difficult as those presented in the past 2 years. In February 1981, President Reagan proposed a broad economic initiative which included massive cutbacks in taxes and Federal spending.

The administration unexpectedly used the budget process to achieve not only these economic goals but also to implement a series of philosophical changes. Despite what I would consider this misuse, the somewhat battered congressional budget process did manage to survive the trials of the past 2 years, and I am going to work to make sure that it continues to survive.

This country faces unprecedented large budget deficits for the next several years, and Congress will be forced to make extraordinarily difficult budget choices. If used correctly, the budget process can assist us in making these difficult choices and in producing a suitable Federal budget.

In my view, the budget process does work. Congress has adhered to the basic outline of the Budget Act and has used its inherent flexibility to adopt new procedures to deal with emerging problems. The objectives behind enactment of the Budget Act were quite diverse, and criticisms of the act have resulted because the different expectations of Members and interest groups have not been met. Self-discipline is always uncomfortable. Ordering priorities is difficult, and saying "No" is unpopular. But the alternative of uncontrolled Federal spending is vastly worse. The budget process is necessary. This country cannot afford to return to the practice of uncontrollable Federal spending.

I believe that Congress has made remarkable progress in the way it acts on the Federal budget. The budget process is now an accepted part of the congressional legislative process. By most assessments, the budget process has been very successful.

Before the adoption of the Budget and Impoundment Control Act of 1974, Congress was ill equipped to take an overall look at the economic environment. The only budget was the President's budget and it served as a basis for all fiscal policy discussion and for some legislative action.

Under the Budget Act, Congress has a set of procedures which provide order, guidance, and information in assessing the relative merits of Federal spending with the overall needs of the economy. To this end, the budget process has basically proven to be a procedural and informational success. It is now, however, being treated as a fiscal policy tool, and there is some dissatisfaction that Congress is not exerting effective budgetary control. Many of those dissatisfied with the budget process have claimed that adopting a constitutional amendment to balance the budget will resolve our fiscal problems.

I believe that to achieve fiscal and budgetary control Congress needs a strong and enforceable budget process, not a politically inspired constitutional amendment that has no enforcement mechanisms and no provisions for economic stability.

The budget process is still evolving as a fiscal policy tool, and after almost 8 years of experience with the budget process, the time is right for examining it and for considering ways in which it might be strengthened and improved.

Congress should incorporate changes that experience has shown are needed to improve the process, and steps should be taken to expand the coverage of the Budget Act. The Congress has avoided amending the Budget Act for fear of opening up Pandora's box.

The fear is that opening up the act for amendments would allow Members who have been unhappy with the budget process to damage or even dismantle the Budget Act. Until now, I also have refrained from introducing comprehensive legislation to amend the Budget Act. The budget process has been flexible enough to meet the increasing demands placed upon it.

Many changes to the budget process have been tried on a trial basis through provisions of section 301(b)(2) of the Budget Act. However, given the current balanced budget craze, I fear that if the Budget Act is not amended carefully in order to strengthen and improve the budget process, we may see the Budget Act ignored and possibly replaced with a toothless balanced budget constitutional amendment.

After years of review and study of the budget process through my work as chairman of the Budget Process Task Force, and more importantly, after 6 years of experience with the budget process as a member of the Budget Committee, I have several recommendations for improving and expanding the Budget Act. In the next few weeks, I plan to introduce legislation that amends the Budget Act to incorporate these recommendations including:

Binding first budget resolution: Make the budget aggregates of the first budget resolution binding and eliminate the need for a second budget resolution unless significant change occurs in the economic outlook or unforeseen needs arise for legislative action.

Reconciliation in the first resolution: If reconciliation is needed, it should be used in the first budget resolution to allow committees sufficient time to achieve legislative savings. In addition, procedures for using reconciliation need to be established.

Appropriations process reform: On September 15 the Appropriation Committees begin to work on an omnibus appropriations bill which contains the following: One, the appropriations bills reported by the committees but not enacted by the Congress; two, the appropriations bills not reported by the Appropriations Committees; and three, the appropriation bills which are held at the desk because they exceed their committee 302(b) allocations.

Credit budget: One of the most important steps Congress can take to improve the Budget Act would be to make the credit budget a required part of the budget resolution.

Off-budget agencies: To improve the coverage of the Budget Act, off-budget agencies should be made a part of the unified budget.

Binding multiyear budget totals: Expand Congress' planning horizon by making the outyear targets in the budget resolution binding.

Capital budget: To allocate scarce funds for our Nation's infrastructure in the most efficient way possible, Congress needs to provide a capital budget providing information on the condition of existing infrastructure and estimates of future infrastructure needs.

Entitlement control: Congress may want to consider directing the Joint Economic Committee to review and make recommendations for controlling the growth of entitlement programs.

Impoundment control: Certain technical changes to the Impoundment Control Act are necessary to clarify the intent of the act. In addition, impoundment control should be extended to direct loans and loan guarantees.

Mr. Chairman, in the remainder of my testimony I will highlight some of these recommendations. One lesson that has been learned in the last several years of experience with the budget process is that the first budget resolution has become the more important of the two concurrent resolutions on the budget required each year.

The major budgetary issues facing the Congress each year must be resolved in the first resolution. By the time the second budget resolution is considered, we are much too close to, and for the last 2 years, past the start of the fiscal year to make important budget decisions.

The significance of the first budget resolution should be recognized by making the budget aggregates of the first budget resolution binding and eliminating the need for a second budget resolution unless significant change occurs in the economic outlook or unforeseen needs arise for legislative action.

Reconciliation is considered by many as the most effective tool Congress has to control Federal spending. The experience with reconciliation to date demonstrates that the reconciliation process takes time and that a set of rules and procedures need to be established under which reconciliation may occur.

In order for reconciliation to be successful, however, Congress must reach agreement on how the process should be used and what limitations should be imposed. During the fiscal year 1982 budget cycle, the reconciliation process got out of hand.

To avoid further misuse of the reconciliation process, the leadership in both Houses should agree to guidelines, prior to the adoption of the first budget resolution, specifically spelling out the use of reconciliation, thus eliminating any ambiguities that exist in the reconciliation provisions of the Budget Act.

I recommend that if reconciliation is going to be used, it should be used in the first budget resolution to allow committees sufficient time to achieve legislative savings. In addition, reconciliation instructions should be limited to mandatory spending programs, primarily entitlements, and it is very important that reconciliation be used only as a vehicle to enforce budget cuts and tax increases and not as a vehicle to implement extraneous policy legislation.

Making the first budget resolution binding and allowing for reconciliation in the first resolution will give the authorizing and appropriating committees a clearer direction earlier in the year on the actions they will need to take to achieve the spending and revenue priorities set in the budget resolution.

Hopefully, these actions will also help to speed up the appropriations process. Among the goals of the Budget Act was to provide a timetable which would enable Congress to enact all appropriation bills and provide new budget authority before the start of the fiscal year.

When Congress fails to enact all 13 appropriations bills, Congress must adopt a continuing resolution to keep the Government operating. When Congress does not pass a continuing resolution on time the Government shuts down, as was the case on November 23, 1981.

To avoid the disruption of Government operations, I recommend that Congress continue with the appropriations process as it exists under current law. However, if by September 15, Congress has not enacted all 13 appropriation bills, then the Appropriations Committees shall develop an omnibus appropriations bill which contains the following: One, the appropriations bills reported by the committee but not enacted by the Congress; two, the appropriations bills not reported by the Appropriations Committee; and three, the appropriations bills which were held at the desk because they exceeded their committee 302(b) allocations. The Appropriations Committees will retain full jurisdiction and responsibility for making tradeoffs that need to be made between programs.

The Appropriations Committees have the prerogative to shift funds from one program to another, in order to keep the budget totals of the bill under the ceilings of the existing budget resolution. This omnibus appropriations bill is then reported to the floor of the respective Houses on September 20.

A point of order lies against the bill if it breaches the budget totals set forth in the budget resolution. Congress then debates, amends, and passes the legislation by October 1, the start of the fiscal year. If Congress fails to pass the omnibus appropriations bill, then the individual appropriations bills contained in the omnibus bill will be automatically enacted at the previous year's levels.

The success of the budget process has always relied on the Budget, authorizing and the Appropriations Committees working together in a timely fashion. I want to stress the necessity for the Budget and authorizing committees to meet the deadlines established in the Budget Act.

One of the most important steps Congress can take to improve the Budget Act would be to make the credit budget a required part of the budget process. The Budget Act fails to address Federal credit activity, which is the fastest growing form of Federal financial assistance and an important method by which the Federal Government influences the allocation of economic resources.

The Federal credit budget encourages Congress to consider the full impact of credit programs on the economy, on private markets, and on the beneficiaries of credit assistance as well as on the Federal budget. Making the credit budget a permanent part of the budget process would improve the coverage of the Budget Act. However, it does not completely solve the act's inadequacies.

Off-budget agencies should also be made part of the unified budget. Their present exclusion from the budget prevents Congress from taking responsibility for all its budgetary decisions, and, again, hinders Congress from allocating scarce economic resources efficiently.

Another key to more effective resource allocation and better budgetary decisions is to expand Congress' planning horizon by making the outyear targets in the budget resolution binding. This would require multiyear scorekeeping.

In addition, Presidential budgets should be submitted and congressional budget resolutions should be reported with revisions to the baseline established in the outyears adopted in the previous year's budget resolution.

One area which is in desperate need of longer term decisions on programs and funding is capital investments. Our country's worn out and obsolete infrastructure is becoming a barrier to this Nation's economic growth and development. Infrastructure, which includes roads, bridges, sewers, waterways, mass transit, airports and airways, is the foundation of our basic public works that enables our complex economy to function.

To allocate scarce funds for infrastructure in the most efficient way possible, Congress needs information regarding the condition of existing infrastructure. The Federal Capital Investment Act of 1982, H.R. 6591, recently introduced by our colleague from Pennsylvania, Mr. Clinger, along with Mr. Edgar, Mr. Oberstar, Mrs. Kennelly, and others, establishes a mechanism for developing such information.

Finally, Congress can also improve its ability to allocate resources by achieving more control over the growth of entitlements. Some efforts have been made to begin to control entitlements through the reconciliation process. However, further steps need to be taken for long-term control.

Congress may want to consider directing the Joint Economic Committee to review all entitlement programs. A joint committee such as the Joint Economic Committee serves as an investigative committee having representation from both Houses and might therefore provide the proper forum for conducting a thorough review of entitlement programs and making the difficult choices necessary to gain control over these programs. This committee can be responsible for making recommendations for reforming or sunsetting entitlement programs and controlling the growth of expenditures for these programs.

The impoundment provisions of the Budget and Impoundment Control Act also deserve attention. The current administration has made greater use of the impoundment powers of the Budget Act than any previous administration. Some of the provisions of the act have been abused.

The abuses have resulted from statutory problems with the act, GAO's reluctance to aggressively pursue their responsibility under the act, and the lack of impoundment control for Federal credit programs. Certain technical changes to the Impoundment Control Act are necessary to clarify the intent of the act. In addition, the act should be amended to extend impoundment control to direct loans and loan guarantees.

With careful review and revision, the budget process can be not only a successful procedural and informational tool, but also a successful fiscal policy tool. Utilizing the experience gained in the past 8 years under the Budget Act, Congress should now take actions to improve and strengthen the budget process.

I will be available to assist the task force as you begin to develop recommendations for reforming the budget process. From my experience as chairperson of the Budget Committee Budget Process

Task Force, I know that developing recommendations is a difficult task, but if done well it will prove beneficial.

Thank you.

[Mr. Mineta's prepared statement follows:]

Prepared Statement of Hon. Norman Y. Mineta, a Representative in Congress From the State of California

I want to commend Chairman Beilenson for undertaking the difficult task of examining the Budget Act as the Chairman of the Rules Committee Task Force on the Budget Process. As the Chairman knows, I have a great deal of interest in the budget process. As Chairman of the Budget Committee Task Force on the Budget Process for the past four years, I have conducted several oversight hearings on the Budget Act, and I appreciate this opportunity to present my proposals for reforming the Budget Act.

Since its inception in 1975, the budget process has been faced with a series of challenges, but none of these challenges were as difficult as those presented in the past two years. In February 1981, President Reagan proposed a broad economic initiative which included massive cut-backs in taxes and federal spending.

The Administration unexpectedly used the budget process to achieve not only these economic goals but also to implement a series of philosophical changes. Despite this misuse, the somewhat battered Congressional budget process did manage to survive the trials of the past two years, and I am going to work to make sure that it continues to survive.

This country faces unprecedented large budget deficits for the next several years, and Congress will be forced to make extraordinarily difficult budget choices. If used correctly, the budget process can assist us in making these difficult choices and in producing a suitable federal budget.

In my view, the budget process does work. Congress has adhered to the basic outline of the Budget Act and has used its inherent flexibility to adopt new procedures to deal with emerging problems. The objectives behind enactment of the Budget Act were quite diverse, and criticisms of the Act have resulted because the different expectations of Members and interest groups have not been met. Self discipline is always uncomfortable. Ordering priorities is difficult, and saying "no" is unpopular. But the alternative of uncontrolled federal spending is vastly worse. The budget process is necessary. This country cannot afford to return to the practice of uncontrollable federal spending.

I believe that Congress has made remarkable progress in the way it acts on the federal budget. The budget process is now an accepted part of the Congessional legislative process. By most assessments, the budget process has been very successful.

Before the adoption of the Budget and Impoundment Control Act of 1974, Congress was ill-equipped to take an overall look at the economic environment. The only budget was the President's budget and it served as a basis for all fiscal policy discussion and for some legislative action.

Under the Budget Act, Congress has a set of procedures which provide order, guidance, and information in assessing the relative merits of federal spending with the overall needs of the economy. To this end, the budget process has basically proven to be a procedural and informational success. It is now, however, being tested as a fiscal policy tool, and there is some dissatisfaction that Congress is not exerting effective budgetary control. Many of those dissatisfied with the budget process have claimed that adopting a constitutional amendment to balance the budget will resolve our fiscal problems. I believe that to achieve fiscal and budgetary control Congress needs a strong and enforceable budget process, not a politically inspired constitutional amendment that has no enforcement mechanisms and no provisions for economic stability.

The budget process is still evolving as a fiscal policy tool, and after almost 8 years of experience with the budget process, the time is right for examining it and for considering ways in which it might be strengthened and improved. Congress should incorporate changes that experience has shown are needed to improve the process, and steps should be taken to expand the coverage of the Budget Act.

Congress has avoided amending the Budget Act for fear of opening up "Pandora's Box." The fear is that opening up the Act for amendments would allow Members who have been unhappy with the budget process to damage or even dismantle the Budget Act. Until now I have also refrained from introducing comprehensive legislation to amend the Budget Act. The budget process has been flexible enough to meet the increasing demands placed upon it. Many changes to the budget process have been tried on a trial basis through provisions of Section 301(b) (2) of the Budget Act. This provision allows in a first budget resolution "any other procedure which is considered appropriate to carry out the purposes of the Act." However, given the current balance budget craze, I fear that if the Budget Act is not amended carefully in order to strengthen and improve the budget process, we may see the Budget Act ignored and possibly replaced with a toothless balanced budget constitutional amendment.

After years of review and study of the budget process through my work as Chairman of the Budget Process Task Force, and more importantly, after six years of experience with the budget process as a Member of the Budget Committee, I have several recommendations for improving and expanding the Budget Act. In the next few weeks, I plan to introduce legislation that amends the Budget Act to incorporate these recommendations including:

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Reconciliation in the first resolution.—If reconciliation is needed, it should be used in the first budget resolution to allow committees sufficient time to achieve legislative savings. In addition, procedures for using reconciliation need to be established.

Appropriations process reform.—On September 15 the Appropriations Committees begin to work on an Omnibus Appropriations Bill which contains the following: (1) the appropriations bills reported by the Committees but not enacted by the Congress; (2) the appropriations bills not reported by the Appropriations Committees; and (3) the appropriations bills which are held at the desk because they exceed their committee, 302(b), allocations.

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Impoundment control.—Certain technical changes to the Impoundment Control Act are necessary to clarify the intent of the Act. In addition, impoundment control should be extended to direct loans and loan guarantees.

In the remainder of my testimony, I will highlight some of my recommendations.

One lesson that has been learned in the last several years of experience with the budget process is that the first budget resolution has become the more important of the two concurrent resolutions on the budget required each year. The major budgetary issues facing the Congress each year must be resolved in the first resolution. By the time the second budget resolution is considered, we are much too close to, and for the last two years, past the start of the fiscal year to make important budget decisions. The significance of the first budget resolution should be recognized by making the budget aggregates of the first budget resolution binding and eliminating the need for a second budget resolution unless significant change occurred in the economic outlook or unforeseen needs arose for legislative action.

Reconciliation is considered by many as the most effective tool Congress has to control federal spending. The experience with reconciliation to date demonstrates that the reconciliation process takes time and that a set of rules and procedures need to be established under which reconciliation may occur. The reconciliation provisions of the Budget Act provide for very general procedures to enforce the priorities of the second budget resolution. Under these provisions, committees can be directed to reopen spending or tax legislation to make expenditures and revenues consistent with the aggregates of the second budget resolution.

In order for reconciliation to be successful, however, Congress must reach agreement on how the process should be used and what limitations should be imposed. During the fiscal year 1982 budget cycle, the reconciliation process got out of hand. Congress passed volumes of legislation which reduced planned expenditures for more than 250 programs and made far-reaching changes in existing laws. In fact, reconciliation last year did exactly what Congress tried to avoid when it passed the Budget Act of 1974—it undermined the role of the Authorizing and Appropriating Committees and further distorted the balance established among the Budget, Authorizing and Appropriations Committees. It was not the fault of the reconciliation provisions of the Budget Act, rather it was the result of the Rule adopted by the House that allowed the blatant misuse of reconciliation. To avoid further misuse of the reconciliation process the leadership in both Houses should agree to guidelines, prior to the adoption of the first budget resolution, specifically spelling out the use of reconciliation thus eliminating any ambiguities that exist in the reconciliation provisions of the Budget Act.

I recommend that if reconciliation is going to be used, it should be used in the first budget resolution to allow committees sufficient time to achieve legislative savings. Congress has a constitutional responsibility to give full and careful consideration to every bill and resolution that is before it. Proposed changes to existing law must be subjected to intense scrutiny at the subcommittee and committee level and full debate on the floor of both Houses. Time for this careful scrutiny is not available after the passage of the second budget resolution in September.

In addition, reconciliation instructions should be limited to mandatory spending programs, primarily entitlements, and it is very important that reconciliation be used only as a vehicle to enforce budget cuts and tax increases and not as a vehicle to implement extraneous policy legislation.

Making the first budget resolution binding and allowing for reconciliation in the first resolution will give the Authorizing and Appropriating Committees a clearer direction earlier in the year on the actions they will need to take to achieve the spending and revenue priorities set in the budget resolution. Hopefully, these actions will also help to speed up the appropriations process. Among the goals of the Budget Act was to provide a timetable which would enable Congress to enact all appropriation bills that provide new budget authority before the start of the fiscal year. When Congress fails to enact all 13 appropriations bills, Congress must adopt a continuing resolution to keep the government operating. When Congress does not pass a continuing resolution on time the government shuts down, as was the case on November 23, 1981.

For many years, Congress was able to meet deadlines for passing the appropriation bills. However, as government activities became more complex and Congress' budget workload grew more burdensome, it became more difficult to meet fiscal year deadlines and government began operating under continuing resolutions passed by Congress. In March 1981, the General Accounting Office (GAO) reported to Congress on the negative impact of the uncertainty caused by failure to enact appropriations measures before the start of the fiscal year. The report emphasized the serious disruptions to program activities when there is uncertainty as to whether operations will have to stop.

To avoid the disruption of government operations, I recommend that Congress continue with the appropriations process as it exists under currrent law. However, if by September 15, Congress has not enacted all 13 appropriations bills, then the Appropriations Committees shall develop an Omnibus Appropriations Bill which contains the following: (1) the appropriations bills reported by the Committee but not enacted by the Congress; (2) the appropriations bills not reported by the Appropriations Committee; and (3) the appropriations bills which were held at the desk because they exceeded their committee, 302(b), allocations. The Appropriations Committees will retain full jurisdiction and responsibility for making trade-offs that need to be made between programs. The Appropriations Committees have the prerogative to shift funds from one program to another, in order to keep the budget totals of the bill under the ceilings of the existing budget resolution. This Omnibus Appropriations Bill is then reported to the floor of the respective Houses on September 20. A point of order lies against the bill if it breaches the budget totals set forth in the budget resolution. Congress then debates, amends, and passes the legislation by October 1, the start of the fiscal year. If Congress fails to pass the Omnibus Appropriations Bill, then the individual appropriations bills contained in the omnibus bill will be automatically enacted at the previous year's levels.

The success of the budget process has always relied on the Budget, Authorizing and Appropriations Committees working together in a timely fashion. Oftentimes Members of the Appropriations Committees complain, and rightfully so, that they must delay actions on appropriations bills because they are awaiting enactment of authorizing legislation, and Authorizing Committees argue that their work is often postponed because the Budget Committees fail to report a budget resolution by April 15. I want to stress the necessity for the Budget and Authorizing Committees to meet the deadlines established in the Budget Act. I will be considering procedures to allow the Authorizing and Appropriations Committees to proceed with their work if budget and authorization deadlines are not met. I recommend that the Appropriations Committees be allowed to bring their bills to the floor on June 1 even if the authorizing legislation has not been enacted.

One of the most important steps Congress can take to improve the Budget Act would be to make the credit budget a required part of the budget process. The Budget Act currently fails to address federal credit activity—the fastest growing form of federal financial assistance and an important method by which the Federal government influences the allocation of economic resources. The credit budget encourages Congress to consider the full impact of credit programs on the economy, on private markets, and on the beneficiaries of credit assistance, as well as on the federal budget.

Recognizing the need to subject federal credit programs to a greater degree of scrutiny, I introduced the Federal Credit Oversight and Control Act, H.R. 2372. This bill extends the target- and ceiling-setting procedures of title III of the Budget Act to gross direct lending and loan guarantees, creating in effect a credit budget in the Congressional budget process. The purposes of such a credit budget are to exercise greater control over the growth of federal credit activities, and to insure that the level of resources among the various programs is consistent with national priorities, and that more careful consideration is given to the impact of total federal credit activity on the economy as a whole.

This past year, House and Senate Conferees on the First Budget Resolution for Fiscal Year 1983 moved closer towards integrating the credit budget into the budget process by adopting credit enforcement provisions in the Budget Resolution for Fiscal Year 1983. The provisions agreed to by the conferees extend the target- and ceiling-setting procedures of the Budget Act to direct loans and loan guarantees.

As I already stated, I agree that the credit budget should be fully incorporated into the budget process, but the enforcement language contained in the Conference Report responds only to the control of federal credit activity—ceilings will now be placed on federal credit programs. The enforcement provisions do not, however, solve the more urgent problem of Congressional examination and review of federal credit activities. Given the current tight credit markets and the growing concern with the increase in federal participation in those credit markets, Congress must carefully monitor the use of federal credit assistance in a way that considers federal priorities as well as the needs of the national credit markets. Congress did not exercise this review during the fiscal year 1983 budget cycle.

Making the credit budget a permanent part of the budget process would improve the coverage of the Budget Act; however, it does not completely solve the Act's inadequacies. Off-budget agencies should also be made part of the unified budget. Their present exclusion from the budget prevents Congress from taking responsibility for all its budgetary decisions and again hinders Congress from allocating scarce economic resources efficiently.

Another key to more effective resource allocation and better budgetary decisions is to expand Congress' planning horizon by making the outyear targets in the budget resolution binding. This would require multiyear scorekeeping. In addition, Presidential budgets should be submitted and Congressional budget resolutions should be reported with revisions to the baseline established in the outyears adopted in the previous year's budget resolution.

Since an increasingly large percentage of each annual budget is a result of decisions made in previous years, an expanded planning horizon would enhance Congressional responsibility and control. Multiyear budgeting is a means to improve the budget process with respect to making priority decisions. It is a useful tool to help Members of Congress anticipate the issues that will confront them in future years and will give Congress more information on how current budget decisions affect their future ability to deal with those issues. Multiyear budgeting encourages Congressional consideration of future contingencies as part of its deliberations on the budget each year. To make multiyear numbers meaningful Budget Committee Members must focus on outyear impact of budget decisions as well as outyear policy choices. Amendments in markup as well as on the floor must include the outyears. A multiyear scorekeeping system must be developed in order that spending legislation can be monitored on the floor for outyear impact.

One area which is in desperate need of longer-term decisions on programs and funding is capital investments. Our country's worn-out and obsolete infrastructure is becoming a barrier to this Nation's economic growth and development. Infrastructure, which includes roads, bridges, sewers, waterways, mass transit, airports and airways, is the foundation of our basic public works that enables our complex economy to function.

To allocate scarce funds for infrastructue in the most efficient way possible, Congress needs information regarding the condition of existing infrastructure needs. The Federal Capital Investment Act of 1982, H.R. 6591, recently introduced by Mr. Clinger, Mr. Edgar, Mr. Oberstar, Mrs. Kennelly, and others, establishes a mechanism for developing such information. The bill requires that the President identify capital investments in his annual budget submission. As part of the fiscal year 1984 budget submission, the President is required to include a Special Analysis of capital projects and a full capital budget is mandated in future years to identify past public infrastructure investments including the cost of building and maintaining these public facilities and determining revenue sources for a capital investment policy. The Economic Development Administration is required to provide an inventory and assessment of public infrastructure facilities.

Finally, Congress can also improve its ability to allocate resources by achieving more control over the growth of entitlements. Some efforts have been made to begin to control entitlements through the reconciliation process. However, further steps need to be taken for long term control.

Several proposals for dealing with entitlements have been suggested in the past few years. During the December 1979 hearings of the Task Force on the Budget Process witnesses proposed that new entitlements be limited to amounts provided in advance in appropriations acts. Another suggestion was to institute an authorizing ceiling or "cap" on each entitlement program. There was also some discussion of the possibility of identifying entitlement amounts in the budget resolutions. This would increase awareness of the amounts required to be spent through existing entitlement legislation. The inclusion of entitlements in the budget resolutions would place entitlement authority equal to other types of budget authority by making it subject to the point of order discipline of Section 311 of the Budget Act.

Recent suggestions for dealing with entitlements include making all entitlements subject to the annual appropriations process which is currently done with contract and borrowing authority. However, subjecting entitlements to annual appropriations would eliminate the very nature of the entitlement programs. Entitlement programs would no longer be granted preferential treatment and may be inconsistent with the purpose for which the programs are created—to guarantee recipients a certain level of benefits or services by giving the program preferred access to federal funds. Such a step would require a change to the Budget Act and would be politically difficult. Persons who depend on retirement or other basic income maintenance would find it difficult to plan their personal budgets if money available for annuities is subject to the review of annual appropriations.

Gaining control over entitlements will require Congress to make a trade-off between providing a long-term stable commitment to people who voluntarily or involuntarily participate in entitlement programs and controlling federal spending in the short and long run. There is no easy answer for making this trade-off. It will require serious review and consideration and many difficult decisions and votes.

Congress may want to consider directing the Joint Economic Committee to review all entitlement programs. A joint committee, such as the Joint Economic Committee, serves as an investigative Committee having representation from both Houses and might therefore provide the proper forum for conducting a thorough review of entitlement programs and making the difficult choices necessary to gain control over these programs. This Committee can be responsible for making recommendations for reforming or sunsetting entitlement programs and controlling the growth of expenditures for these programs.

The impoundment provisions of the Budget and Impoundment Control Act also deserve attention. The current Administration has made greater use of the impoundment powers of the Budget Act than any previous administration. Some of the provisions of the Act have been abused. The abuses have resulted from statutory problems with the Act, GAO's reluctance to aggressively pursue their responsibility under the Act, and the lack of impoundment control for federal credit programs. Certain technical changes to the Impoundment Control Act are necessary to clarify the intent of the Act. In addition, the Act should be amended to extend impoundment control to direct loans and loan grarantees.

With careful review and revision, the budget process can be not only a successful procedural and informational tool, but also a successful fiscal policy tool. Utilizing the experience gained in the past eight years under the Budget Act, Congress should now take actions to improve and strengthen the budget process.

I will be available to assist the Task Force as you begin to develop recommendations for reforming the budget process. From my experience as Chairperson of the

Budget Committee Budget Process Task Force, I know that developing recommendation is a difficult task, but if done well it will prove beneficial. Thank you.

Mr. BEILENSON. We thank you very much for your very comprehensive and thoughtful testimony including several relatively new suggestions for changing the budget process. Especially, I do not think we have heard before about an omnibus appropriations bill to be developed in mid-September, if the appropriations bills haven't moved along well by that time.

Do any members wish to ask questions? Mr. Jones?

Mr. JONES. Let me just clarify. You were not suggesting, were you, Norm, that we have a capital and operating budget, were you?

Mr. MINETA. No; I was not suggesting that we separate the two. That would be the quickest way to get to a balanced budget, however.

Mr. REGULA. Mr. Chairman.

Mr. BEILENSON. Mr. Regula.

Mr. REGULA. Thank you, Mr. Chairman.

A couple of questions on the appropriations feature, Norm. What do you see as the difference between the continuing resolution and what you are proposing here as an omnibus bill, which seems to have some of the features of the continuing resolution for appropriations purposes?

Mr. MINETA. For one thing, by making it part of the Budget Act, we establish certain deadlines for appropriations actions. Right now we have really no track to put us on schedule to do with appropriations bills. Even though it may sound like a continuing resolution, we in fact, by step and by procedure, establish statute what has to be done prior to the fiscal year.

Mr. REGULA. And I assume that you are contemplating, for example, an open rule on this, so that in fact the House could work its will on all the various components of the omnibus bill; is that correct?

Mr. MINETA. That is correct.

The other major difference between current practice and what I recommend here is that the omnibus appropriations bill would appropriate funds through the fiscal year.

Mr. REGULA. Instead of——

Mr. MINETA. Instead of, let's say, October 18, January 23, or some arbitrary date established in a continuing resolution.

Mr. REGULA. When you contemplate the budget totals, are you talking in terms of the 13 subcommittees that have been allocated an amount under the 302(b), or are you talking about that in the omnibus bill it could go up, say, on the defense and down on something else just so the totals are not breached?

Mr. MINETA. That is correct.

Mr. REGULA. I assume that you are contemplating that this kind of legislation, if it were part of the Budget Act, would be a substantial inducement to the Appropriations Committee to get its work done, or in fact have the House do it for the Appropriations Committee?

Mr. MINETA. Hopefully the leverage would be there.

Mr. REGULA. Thank you, Mr. Chairman.

Mr. BEILENSON. Then you are suggesting the additional inducement of deferring to the last year's levels?

Mr. **Mineta**. That is correct, the previous year's totals.

Mr. **Beilenson**. On another subject, Norm, how do you make outyear targets binding? Is that possible to do?

Mr. **Mineta**. In this area, what I am contemplating is that we would have the 2 outyears, and this would require multiyear scorekeeping. Bills and amendments brought to the floor will be scored for outyear impacts. If they breach those outyear totals, they would then be subject to a point of order. This would not create that much of a problem, given the fact that appropriations bills are only for 1 year.

The purpose of really making outyear numbers binding is to provide all of us with information on the outyear impacts of bills that we are considering.

Mr. **Beilenson**. But the subsequent year's budget resolution could, of course, make variations or changes in what happened in the previous year?

Mr. **Mineta**. That is correct.

Mr. **Beilenson**. When you finally catch up to that year, if the conditions are changed to the extent that we need to make those changes, the subsequent resolution could make those changes?

Mr. **Mineta**. That is correct.

Mr. **Beilenson**. We have to be as serious as we possibly can in projecting the outyears.

Are there any other questions of Mr. Mineta?

We thank you very much.

Mr. **Mineta**. Again, thank you very much, Mr. Chairman.

Mr. **Regula**. Norm, would you contemplate a 2-year appropriation, or do you think we should stay with an annual cycle?

Mr. **Mineta**. I think we should probably stay at the annual, given our current budget situation.

Mr. **Beilenson**. Our next witness is Hon. Leon Panetta, another Representative from California. Are there any other Representatives from California around? They can testify.

STATEMENT OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. **Panetta**. That is right, whose name ends with an "etta."

Mr. Chairman, members of the task force, thank you for the opportunity to be able to appear before you and give you some thoughts on the budget process and some of the reforms that I would recommend to the task force.

This is, obviously, an excellent time to be able to do this. We have been through a very difficult 2 years in terms of dealing with the budget and now, perhaps, that the smoke is clearing a little bit and the wounds are beginning to heal, it is well that we try to ask the question, "What type of reforms are needed?"

This month alone the House Budget Committee, the Senate Budget Committee, this task force of the Rules Committee are all holding hearings on the budget process, and there is, obviously, a great deal of pressure to do something, anything from putting the process into a straitjacket of a constitutional amendment to getting rid of it altogether, and it runs that whole gamut.

Because of all the attention, I think a word of caution is in order. I sense that a lot of the frustration stems from lost votes on issues, and I don't think we ought to forget that, this process doesn't always result in what we individually might want to have as part of the budget resolution, but ultimately any process changes we make are dependent on a majority vote on the floor of the House, and if you win it, that is fine, your priorities are established in that budget resolution. If you lose, you don't suddenly talk about changing the process, because you don't like the results.

I have a sense that a lot of the initiatives that have started this year in terms of changing the budget resolution are not really serious about trying to improve the process, but they just simply don't like what has resulted in the process through majority votes on the floor of the House, and so I think we have to be very careful to understand that the basic budget process itself is pretty sound. The basic format that has been put in place since 1974 is pretty sound.

All you have to do is look at the record, in terms of the process. It hasn't been easy. It hasn't been something that everybody has been very joyful about, depending on whose ox was getting gored, but if you look at the overall results, particularly on appropriations and on reconciliation, appropriations has never exceeded, since 1974, their 302 targets. Appropriations has stayed within their overall targets established by the budget resolution.

I think that is a statement that is in support of the budget process and something we ought not to just cast aside. Also, ever since reconciliation has formally been put into action, the committees have met or exceeded the targets established in the budget resolution, and that is with a great deal of consternation, a lot of concern about what the budget resolution called for, and yet the committees responded in trying to meet those targets.

As chairman of the Reconciliation Task Force, I can tell you that most of these committees, while they may not have liked what was part of that budget resolution, the chairmen in those committees responded in large measure to the dictates of the House and the majority vote of the House, so there have been some dramatic successes for the budget process.

Whether the budget resolution is strongly supported or opposed, whether it has been 100 percent accurate or not, the Congress, in fact, has largely adhered to its targets, and that speaks strongly for preserving the budget process. I think Congress wants to make this process work.

It has improved a great deal in 8 years, and I think that experience justifies that we not have any major dismantling of the act itself. Without question, some reforms are needed and necessary, and I would be the first to agree with that. We have got to put together resolutions that are more specific and more enforceable.

Enforceability, I think, is the heart and soul of a successful budget process. If you aren't going to have enforcement as part of any process you put together, then you really don't need a budget process, and if all you are thinking about is setting some kind of general targets that are not going to really be enforced along the road, then very frankly you ought to get rid of the process. It doesn't serve anybody.

I think you need to have enforceability as part of it, and I was, frankly, very concerned this year during the debate on the resolution where we almost lost some of the enforcement powers on a vote on the floor. That sends us some important signals, that we have got to be very careful about how we enforce it, and how we operate and maintain that balance between the Budget Committees, the Appropriations Committees, and the authorizing committees.

Recognizing the need for what I think should be limited reforms, let me talk about four areas. First is reconciliation, and, as I have stated, I have been chairman of the Reconciliation Task Force for the past 3 years. This year's reconciliation effort, I think most of you will agree, went very smoothly, and it went smoothly because we tried to rectify some of the problems we ran into last year.

The history on reconciliation is that we achieve our best successes when we do allow the committee process to work. That really is the history of reconciliation. The first year we tried this was in 1980, and then we worked very closely with seven or eight committees, and each of those committees, I might say, responded by meeting the targets that were provided under reconciliation.

This was under the last year of the Carter administration. Every one of those committees met their targets, including Post Office and Civil Service. It was only when we came to the Rules Committee on the twice-a-year COLA that an amendment was then offered to do away with that limitation of going from twice a year to once a year, and the vote was presented on the floor and we lost it, but the committees did their job and the chairmen did their job in reporting reconciliation legislation.

The second year also, 1981, when we faced the first massive use of reconciliation, we had something like 16 or 17 committees. One committee, Education and Labor, had to cut almost $12 billion out of their programs as mandated by the Gramm-Latta resolution that was adopted by the House.

Nobody liked that. Yet when I met with that committee, they did not want the Budget Committee to tell them where those cuts were going to be made. They wanted to make that decision, and so, to the credit of the chairman and the members of that committee, as much as they hated what was mandated by a majority vote by the Congress, they nevertheless made a recommendation and they met their targets.

They recommended where the cuts ought to be made. Unfortunately, what happened was that a massive substitute came in, and that was adopted.

I think that was really what made reconciliation the villain of the budget process. Many Members who had worked on those committees, who had tried to do the job, suddenly felt that a massive substitute developed someplace else beyond the Hill had been adopted, and forced down the throats of the Congress, and that really has, I think, created the biggest problems we have.

In addition to that, there were other problems that were part of it. It included changing authorization levels. It included going after appropriations. It included extraneous legislation, such as changes in communication laws and lawn mower safety standards, and things like that, that had no place in reconciliation.

It also, as I said, really bypassed the committee process, and so it became a villain of the process, and I think a lot of people were very concerned about whether reconciliation, in fact, could be used successfully.

This year we learned from that experience. On the House side what we basically did was to direct the committees to respond to reconciliation, to report their separate approaches and then take it to the floor. If they came out before the deadline, they could go directly to the floor, and every one of those committees, in fact, made their recommendation and went to the floor.

Now, one of them did not meet the target, Post Office and Civil Service, and yet when Post Office and Civil Service went into conference, what they came out of conference with was very close to the overall goal that was presented to the Post Office and Civil Service Committee, but the key thing that I would bring to your attention is that these committees each handled their own area, took the issues to the floor, and in each instance the committees were able to make their case, and the minority was offered an opportunity to present an amendment to challenge whatever the committee had done.

The best way to get things done in this place is by allowing those committees and the chairmen to be able to have their reins, to be able to know what their parameters are, what they have to report in terms of general targets, but give them the opportunity to deal with the issue and then present it on the floor, and handle their area.

The danger last year is that everybody looked at the Budget Committee and said that the Budget Committee is trying to become a supercommittee and take over everything, authorizations, appropriations, everybody's jurisdiction, and in fact there is that danger, if you run reconciliation the way it was run last year, with that last-minute substitute. But if you give committees the freedom to meet their goals, then reconciliation can be implemented effectively.

Mr. BEILENSON. Excuse me for just one moment. The vote is on H.R. 4374, the Shipping Act. It is the first of five postponed suspension votes from yesterday. We will take your testimony for another 8 or 9 minutes, and at that time recess until the end of the fifth vote.

Mr. PANETTA. I will try to summarize because most of it is here. If you want to tighten up on reconciliation, the areas to tighten up on basically would be to require that it be tied to the first budget resolution formally.

Second, that entitlements alone be included in reconciliation.

Third, that there be no additional expenditures as part of reconciliation. It ought to be a savings tool.

Last, that it ought not to be used as a massive train to push through just one massive substitute. It ought to be used in a way that allows the committees to work their will.

Mr. BEILENSON. Can we do that by statute?

Mr. PANETTA. I think it could be done by statutory change or by rule change. Frankly, I should tell you that my preference is right now to retain as much flexibility as possible in the reconciliation process. I would strongly oppose straitjacketing the process, because so much of it is dependent on working with the chairmen and the members, and trying to deal with each of the committees as they try to negotiate meeting those targets.

And I have to urge this task force, and I urged the Budget Committee yesterday, and I am going to urge the Senate to please allow maximum flexibility in this area. It is a touchy area.

Briefly, I will mention the other areas. One, you should move to one budget resolution. Reconciliation is supposed to be tied to the second budget resolution. We all recognize that we really fight for one resolution, and we ought to make that a formal change.

Very frankly, it would be impossible to implement reconciliation in the second budget resolution. You just don't have time to do it, and I think that most people recognize that.

Third, there has got to be agreement on spending base and entitlements. People just don't simply understand why we can't agree with OMB and CBO on what entitlements are, what are discretionary spending programs, and what the numbers are.

I mean, people don't understand if you are going to have so much come in and so much go out, why we can't agree on that, and so I would strongly urge that we continue that effort.

Mr. Michel has tried to do that, and I would urge that we continue the effort to define what in fact are entitlements.

Last, I would mention the 2-year budget, because it is a proposal that I first introduced when I came to Congress. Now there are a number of proposals that have the same theme. I think there are something like four 2-year bills that have been introduced in the U.S. Senate.

Senators Ford and Quayle, Senator Roth and a number of others basically support a 2-year approach.

There are two reasons for doing the 2-year budget. One is that we need greater oversight in the Congress. We need to have committees looking at the programs and giving greater attention to where programs can be tightened up.

My concern this year and last year on reconciliation is that OMB basically dictates what programs we're going to look at up here. We don't play enough of a role in that process.

We tend to react to whatever OMB sends up here. I think if you allow a greater period for oversight and for looking at these programs, that the committees would have greater play in deciding which programs need to be changed.

Second, I think we have got to have that longer period of time in order to meet the deadlines, particularly with regard to appropriations that simply aren't being met now. As most of you know, last year, only about three appropriations bills passed before October 1.

This year, I think the likelihood is that we are not even going to have one appropriation bill pass the House and the Senate before October 1. We are going to go right to a continuing resolution, and I think that is wrong. I really feel that is wrong, and I think it is dangerous to talk about an omnibus appropriations bill.

Every time we wrap something up in one big package, we have lost something in this institution. We did that in reconciliation last year, and every time we do a continuing resolution, a massive continuing resolution on appropriations, we lose something.

We are not able to implement our will or consideration on individual appropriations bills, and I think the only way to do that is to try to extend the process over a longer period of time.

Mr. RHODES. To extend what, Leon? I am not following you.

Mr. PANETTA. To extend the budget period over a 2-year period rather than a 1-year period. I realize there are some areas that need year-to-year analysis, defense, foreign aid, perhaps income security need to be looked at, but there are a number of areas that I think could be incorporated in a 2-year period.

All you have to look at is at our functional areas. General science and technology could be 2 years, energy certainly could be 2 years, natural resources and environment could be a 2-year budget, agriculture could be a 2-year budget, commerce and housing, transportation.

There are a number of areas that I think make sense to extend over a 2-year period, and try to retain some others for the year-to-year analysis.

We have a GAO report that is due out this fall on the 2-year budget. That I think will give us a better sense of how we should proceed on the 2-year concept for the future.

Those are some of the ideas I wanted to suggest, and I will be happy to answer your questions or come back after the vote and answer your questions.

[Mr. Panetta's prepared statement follows:]

PREPARED STATEMENT OF HON. LEON E. PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

This is certainly an excellent time to take a hard look at the past eight years since the Budget Act was adopted and ask ourselves how the budget process has fared and whether any changes are needed. There is no doubt that the process has met its greatest challenge just over the past two years. The focus of the Congress, the President and the entire Nation has been almost exclusively on budget issues during the 97th Congress, and the bitter partisan disputes over spending and tax policy have placed enormous strain on the process. Now that the smoke is clearing on the battlefield and with some of the wounds beginning to heal, many in Congress are asking whether reforms are needed. This month alone the House Budget Committee, Senate Budget Committee and the House Rules Committee are holding hearings on the budget process. There is pressure from many quarters to do something—anything about the process, from putting it in the straitjacket of a constitutional amendment to getting rid of it altogether.

Because of all the attention—much of which may be due to frustration over lost votes—it is well to sound a word of caution. I believe the budget process is basically sound. The Budget Act needs some fine tuning, it does not need a complete overhaul. While the process has not made life any easier for us here in Congress, it has imposed a much needed discipline on the institution, and educated the public on the hard decisions that need to be made.

We cannot forget that the budget process is part of a larger political process and subject to the whims of that reality. Faulty economic assumptions and optimistic tax and spending projections have been built into our budget resolutions, usually because of political needs. This has resulted in actual deficits that far surpass deficits planned for in our budget resolutions. However, in the two areas where we have most control—appropriations bills and in reconciliation—we have met our targets consistently since passage of the Budget Act.

As chairman of the House budget committees Reconciliation Task Force I have directed every reconciliation effort by Congress since 1980. In 1981 and again this year the Congress actually surpassed its reconciliation targets for spending cuts. On the appropriations side overall spending ceilings have not been breached once since passage of the Budget Act.

These are dramatic successes for the budget process. Whether a budget resolution has been strongly supported or opposed, whether it has been 100 percent accurate or not, the Congress has largely adhered to its targets and that speaks strongly for preserving the budget process. Congress wants to make this process work. It has improved a great deal in eight years. That experience alone does not justify any major dismantling of the Act.

Without question, some reforms are needed. We must be able to put together budget resolutions that are specific and enforceable. Enforceability remains the heart and soul of a successful budget process. That is why the vote earlier this year, during consideration of the first budget resolution, was cause for concern. As you will recall, certain enforcement procedures were stripped from three pending budget resolutions, making these resolutions essentially meaningless. Fortunately the budget resolution finally passed by the House ultimately corrected that problem, but those votes must not be forgotten by those defenders of this process. We have a major responsibility to educate the Congress and the American public as to why enforcement is so crucial to the process, and to implement appropriate reforms. We must ensure that such a rejection of the process and its enforcement tools does not happen again in the Congress.

Recognizing the need for limited reforms that address some of the concerns raised, let us also take this opportunity to proclaim that the basic structure of the budget process is sound. The process has worked. Congress and the country need the process. With that commitment, how can we make the process more efficient and effective? I would like to discuss my thoughts on four basic areas:

RECONCILIATION

As you know, Mr. Chairman, I have been chairman of the House Budget Committee's Reconciliation Task Force since reconciliation has been implemented under the Budget Act. I think you will agree that this year's reconciliation effort worked much more smoothly than reconciliation last year. In my opinion, the change we made in reconciliation that contributed most to the success we enjoyed this year was to allow committees to work independently and go directly to the House floor with their reconciliation packages. Four such packages were considered by the House this past summer, each of which passed by a substantial majority. For final passage of the reconciliation bill we took what committees had agreed to in conference and packaged that legislation in an omnibus reconciliation bill. Spending reductions achieved in reconciliation exceeded the three year reconciliation targets set in the first budget resolution by some $3 billion.

Reconciliation was substantially more difficult and controversial last year. Obviously, one of the problems was the fact that large spending cuts were mandated by the Resolution through reconciliation—some $140 billion over three years—but the process was also subject to a great deal of abuse. The massive last minute substitute package adopted by the House in place of the work of the House Committees left a bitter reaction among all members. Few had any idea of what was contained in that substitute and its passage represented an undermining of the legislative process itself.

There were other problems with the process last year. Cuts in authorization levels were made part of reconciliation, confusing the jurisdictional responsibilities of the Appropriation and Authorization committees and greatly complicating reconciliation from a technical standpoint. Extraneous legislation having nothing to do with spending reductions was also included in reconciliation, slowing down the process and directing attention from the main goal of cutting spending.

Unfortunately, reconciliation last year became the villain of the budget process, and yet it is a valid, useful and essential tool for restraining Federal spending. The whole point of the budget process is to ensure that Congress abides by the spending and revenue levels set by the budget resolution for the fiscal year. That agreement becomes meaningless without some enforcement mechanism. Reconciliation requires committees to conform their programs with the spending levels set by both Houses.

In 1980 reconciliation was used successfully in a limited way and substantial support for the process was created in Congress. This was largely the result of working very closely with the committees involved. Last year, the work of the committees on the House side was rejected by an 800 page substitute—creating doubt in the minds of both Democrats and Republicans about whether reconciliation should be used at all. That substitute included not just measures to cut spending, but policy legislation as well. It forced authorizing committees to limit the jurisdiction of the appropriations committees. It became both a train for miscellaneous amendments and a hideaway for those who did not want separate votes on the tough issues. And, most of all, it distorted the delicate balance between budget, authorizing and appropriating committees.

Thankfully the problems we had with reconciliation in 1981 were not duplicated this past summer. No massive substitute reconciliation bill was considered on the floor, committees were able to proceed to the floor directly with their package outside of an omnibus bill. Authorizations were not reconciled and extraneous legislation was kept at a minimum, as was legislation mandating spending. I think members of both Houses felt much more informed of the content of the reconciliation bills than they did last year, and as a result you did not find as much resentment and anger directed at the reconciliation process.

As for changes in the Budget Act regarding reconciliation, the question is whether we assume the process will go as smoothly in future years as it did this year, or whether the excesses of 1981 will be repeated. If the latter is the case then we may want to design legislation that clearly gives committees the option of proceeding directly to the floor with their reconciliation packages and that specifically limits reconciliation to direct spending for entitlement programs. We may also want to consider limiting reconciliation to legislation that reduces spending and changing the Budget Act to expressly allow reconciliation in the first budget resolution.

Frankly, my preference right now is to retain as much flexibility as possible in reconciliation. This is still a young process—having been used for the first time in 1980—and in a sense we are still experimenting. This is the first year we have had all committees involved in reconciliation go to the floor separately. It worked well, but I do not feel we need to lock in this procedure. In the future we may find it to our advantage to go with the omnibus reconciliation bill approach used in 1980 and 1981. Reconciliation is an essential tool and one that will most certainly be used again. I hope we can discuss rational changes in the process and turn back efforts to cripple it or eliminate it completely from the budget process.

MOVING TO ONE BUDGET RESOLUTION

In reality the main fight in Congress is now over the first budget resolution, which can contain reconciliation instructions and sets the course for action on spending and revenue measures for the rest of the year. The second budget resolution was originally designed to wrap up budget work for the year on September 15, and to set a binding ceiling on spending. In recent years, however, work on appropriations bills has been nowhere near complete by the beginning of the fiscal year, making it impossible to design an accurate second resolution in September. Consequently, we wait until the spending picture is a little clearer, meaning a second resolution is not passed until November or December. Another problem in the fall is that the optimistic estimates normally used to develop a first budget resolution in the spring have usually been proven wrong by September or October. Higher deficit projections result, making it extremely difficult to pass a resolution that accurately reflects current budget realities. The choice then is to ignore the mandate of the Budget Act and pass nothing, or to report a resolution with fake numbers.

I believe the Committee should consider amending the Budget Act to eliminate the second budget resolution. Instead the Act could be changed to allow a revised first budget resolution at the most appropriate time, either in the fall or in the spring of the next year.

An enforcement tool should be made available after the first budget resolution is passed. Either the procedure of holding a bill at the desk if it breaches the 302(b) allocations can be continued (this has been done for the past three years), or a point of order could be created for any bill that breaches the 302(b) allocations. While it is obvious that the Appropriations Committee is always going to be concerned about any enforcement mechanism that limits their flexibility, it must be noted that the appropriations bills reported last year were well within the 302(b) allocations.

AGREEMENT ON SPENDING BASE AND ENTITLEMENTS

As you know, Mr. Chairman, the OMB and the House Budget Committee frequently operate off different spending bases. This means debates that should be focusing on policy issues often collapse into frustrating disputes over who is starting from where on what baseline. Also, there is disagreement between the Budget Committee and OMB over what programs are entitlements. This has caused difficulties during consideration of the last two continuing resolutions. In both resolutions a major issue was how much to cut non-entitlement programs. Serious problems arose because no agreement could be reached on which programs were entitlements and which programs involved discretionary spending. Reconciliation, which we try to focus on entitlements, is plagued by similar disagreements.

I believe every attempt should be made to bring OMB and the Budget Committee and the CBO onto the same spending base. This will be extremely difficult because to devise a single base would require agreement on economic assumptions and spend-out rates, two items which are traditionally very difficult to reach agreement on. It would certainly help focus the debate on priorities if all parties could agree on a common numbers base. In the very least, there ought to be a way in which each of the different numbers can be compared so that significant differences can be defined and analyzed prior to floor debate.

As for entitlements, last year Minority Leader Michel organized a group of staff and Members with the object of developing a list of entitlements. Unfortunately, action on the first budget resolution earlier this year caused this group to abandon its efforts. We as a committee may want to get involved in this area in the hope that a list of entitlements can be put together that the House minority, Senate, OMB and CBO can agree upon.

TWO-YEAR BUDGET

Perhaps the most major budget reform I would recommend is consideration of a two-year budget cycle. Many of the difficulties we have encountered in this Congress could have been avoided if we simply had more time to consider and debate budget-related measures.

Under the provisions of the two-year budget bill I have introduced, H.R. 1010, the first six months of the two-year congressional term would be devoted to formal oversight of programs and agencies by the committees of each House. The second six months of the first year would be set aside for work on authorization bills and would end with the Budget Committees reporting a first concurrent resolution on the budget.

Authorization bills and the first budget resolution would be passed early in the second session, following which both Houses would consider appropriation bills, with a deadline for passage of such bills in the 7th day after Labor Day. A second budget resolution would be passed two weeks prior to the start of the new two-year budget period.

Although I introduced the first two-year budget bill in the House, there are currently four two-year bills pending in the U.S. Senate. Senators Ford and Quayle have combined their two year bills into a measure very similar to H.R. 1010. It provides a year for oversight and a year for work on spending and tax legislation. Senator Roth has a two year bill which basically reverses the procedure—he would like to see the first year used for work on spending legislation and the second year used for oversight, with the fiscal two-year period beginning in mid-Congress. The Roth legislation also calls for an omnibus two-year appropriation bill.

An important contribution to the debate on the two-year budget concept is expected later this fall in the form of a GAO report on the subject. In July of 1981 Congressmen Mineta, Bethune, Regula and myself requested on behalf of the House Budget Committee's Task Force on Enforcement Credit and Multi-year Budgeting that the GAO undertake such a study. The GAO agreed to such an undertaking and has been working on the study for the past year.

I believe a two-year budget cycle is necessary for two reasons. One is a need for greater oversight in Congress. Over the past two years we have made cuts of over $160 billion in federal spending. What needs to be addressed is whether Committees are prepared to make cuts based on their knowledge of federal programs or whether they will be based on a blueprint drawn up by the Office of Management and Budget. How are our committees to make intelligent decisions about which programs can be eliminated or cut without taking the time to talk to those who run the programs and outside analysts, beneficiaries of the program, the GAO, CBO and Congressmen whose districts feel the impact of the programs—essentially what is done through oversight. It may be that all programs under a particular committee's jurisdiction are run efficiently, serve beneficiaries and contribute greatly to the economic and social health of this country. The challenge today is to identify those programs at the same time those not so efficient or effective are reformed or cut back.

So whether the Congress is engaged in expanding or contracting the size of the federal government, oversight activities are crucial. Under the Biennial Budget Act, again, a six-month period would be set aside for such activities, leaving Congress the rest of a two-year period for work on authorization and appropriation bills. With such a schedule I am confident that Congress will be better equipped to deal with the difficult budget issues and procedures that we will face in the future.

Our failure to meet the deadline set in the Budget Act is another reason why I feel a two-year budget cycle is necessary. In 1980 only 3 appropriations bills were passed before October 1 and this year it is extremely doubtful that we will pass even one appropriation bill before the fiscal year begins. Instead we will be looking at a continuing resolution for much of the year. This failure to make basic spending decisions on time causes chaos in government agencies, local and state governments are left in limbo half the year over whether federal funds will be delivered, and an impression is created that Congress cannot manage the nation's affairs, which leads right into the argument that the President should have more control over the budget.

Under my two-year budget bill we would have authorization bills out of the way by March 10 and a first budget resolution finished by March 31. Appropriation bills would be considered starting on May 15, instead of late in the summer as is now the case. Certainly timing problems could arise even with a two-year budget schedule. I feel, however, that having an entire year to consider a President's budget would set the stage for prompt action in the second year. We simply would not see the frantic activity and mass confusion associated with today's spending bills under a two-year budget cycle.

I realize not all parts of the federal budget will fit in perfectly with a two-year schedule. Defense spending, for example, should be kept on a one-year funding cycle because of rapidly changing technology and security problems throughout the world. Most of the budget, however, can be planned on a two-year basis. We need the stability of a two-year budget. We also need the time to analyze the spending cuts and tax increases we desire. I hope this Committee and the Congress give the two-year budget cycle careful consideration.

In conclusion, let me again assert my belief that the basic budget process should be preserved. There is no procedural way to avoid the frustration of a lost vote. But a majority will mandate the contents of a budget resolution under any process—that is ultimately the nature of our democratic process. Improvement can be made. But the Budget Act and process must be preserved.

Mr. BEILENSON. Thank you very much. Shall we ask Leon to come back to respond to questions? We will come back at the end of the final vote. We stand in recess until that time.

[A brief recess was taken.]

Mr. BEILENSON. We have determined that we will finish up with Mr. Panetta and then recess until 2. The full Rules Committee meets at 1:30 to vote on some of the matters that have been held over from yesterday.

Mr. Aspin will be back this afternoon. We thank him for coming back this morning. If you are here at 2 we will take you first. If not, we will get you in as soon as we can thereafter.

Are there questions for Mr. Leon Panetta?

Mr. Rhodes?

Mr. RHODES. Leon, as you mentioned in your testimony, that the biggest crisis that we have facing, I think, in the whole congressional budget operation is the fact that we aren't passing any appropriations bills. The reason given, as you also well know, is that we didn't get the budget resolution in time, the 302 allocations weren't made, and the Appropriations Committee just did not move, and the other body, I understand, is of the opinion now that nothing is possible except a massive continuing resolution with all sorts of things on it that is going to be a real worm's nest or bee's nest.

It is going to be a mess, and will probably get vetoed a couple of times on the way, and things like that. It seems to me we have got to speed up the work of the Appropriations Committee.

Your 2-year appropriations, is one alternative, and I personally find it attractive. I think you pointed out that it would solve several problems, among them the problem of oversight, and I think this is the way I personally would like to go.

The only other alternative I see would be to find some means of having the appropriations subcommittees with a ball park target figure for their jurisdiction, so that they could proceed with their hearings, and possibly even proceed with their markup, and to the floor and then maybe, hold it at the desk until after the budget resolution has become law.

That is the only other alternative to biennial budgeting that I see. The situation we are in now is absolutely intolerable, and will, if it continues, be the death knell of the whole congressional budget process.

Mr. PANETTA. Obviously, I share those concerns. It is rapidly coming down to the point where Congress could have three votes and get the hell out of here, and that is really, I think, a disservice to the people, and it certainly is not what our forefathers had in mind.

Mr. RHODES. It is oversimplistic to begin with.

Mr. PANETTA. Yes. I guess the question I would raise is whether the appropriations process is, in fact, delayed by virtue of what is happening on the budget side, and while I think that is a contributing factor, I don't think that is the whole ball game.

I think, in fact, that when we have met these targets, the May 15 target, and then, given the Appropriations Committee, their figure, we have still had troubles with the appropriations bills, and what has happened is that we are getting into this process where the controversial appropriations bills are always saved for the end, so that Members don't hang out there on separate votes on appropriations bills, or they have used the big appropriations bills to try to crash through the ceiling at the end, whether it is defense or, in the old days, HEW.

So that tactically what was happening is there was a developing mindset that said, "Let's hold off some of these appropriations bills," and Members were saying, "For God's sakes, don't bring up that appropriations bill, because then I will have to go on record on some of these issues."

And so, what has happened is this built-in tendency to put it in a continuing resolution to hide everybody from those separate votes.

Mr. RHODES. I think we have also identified another weakness, and that is the 302 allocation. The 302 allocation, as I understand it—and I say this with all due respect to my good friend, the chairman of the Appropriations Committee—was very late in coming.

Mr. PANETTA. Yes.

Mr. RHODES. I understand that it is not really passed upon by the full Appropriations Committee, in other words, both here and in the other body, and there is room there for taking money from this jurisdiction and putting in another one, and that is, I am sure, always going to be the situation, and probably should, but, nevertheless, it is a point of difference between peoples that take time to iron out, and is something I think we need to address ourselves to.

Mr. PANETTA. No question. I think one of the reasons I have always liked the 2-year approach is that it would give you clearly that year to develop that budget resolution, but then the next year to focus on the appropriations process, and with the entire focus of the country on the appropriations process, I think it would almost force them to consider bills on an individual basis.

Mr. BEILENSON. Mr. Regula?

Mr. REGULA. Thank you, Mr. Chairman. First of all, I want to agree with Leon that the budget process has worked pretty well. In fact, I think in some ways it has worked almost too well, because it has forced Congress to do some tough things, and much of the objection stems from a reluctance to make the hard choices that this process requires.

A couple of questions. Do you see any practical way to provide that we deal only with aggregates, so we don't get into the process of using the budget instrument as a device to deal with a whole host of policy questions?

For example, should we or should we not build a B-1, which rightfully belongs in the authorizing and the Appropriations Committee?

Mr. PANETTA. Yes.

Mr. REGULA. But as you well know, it has often been used, particularly in our committee, as a way of bringing that issue. Do you think that there is a practical way to stick with the aggregates?

Mr. PANETTA. I think it is essential to get it back to the aggregates; that was basically the intent of the Budget Act. As soon as we get into the line item, we destroy the whole idea of what the budget process is about.

Marjorie Holt, I think, had the best idea of trying to set those aggregates in the committee, set those ceilings, and then take those ceilings out to the floor, and then deal with issues, but keep them below those aggregate ceilings.

The other thing is obviously with the Rules Committee to insure that as these proposals come to the floor, instead of opening the door to a line item attack, somehow, I think it has got to be limited so that you try to deal with aggregates only as opposed to going for line items, because once you open that door to line item attacks, it is gone.

It happened this year. Last year, it did not happen. I think it proved much more successful, and I know the first time I came here, when you took budget resolutions to the floor, it was almost all a line item attack, and it would take 2 or 3 weeks to finish the budget resolution.

So I think if there is a firm way to try to keep the focus on the aggregates, that that would really be a step forward with the process.

Mr. REGULA. Maybe that would help to avoid some of the heartburn that we get from the other committees who feel that the budget process invades their prerogatives.

Mr. PANETTA. It is such a distortion in the sense that people who think that they may win a line item vote on the floor—I remember 2 years ago Glenn Anderson, on World War I veterans, brought that amendment to the floor on budget resolution, passed overwhelmingly, never moved out of the Veterans' Committee, never was supported by the administration, and never was implemented.

While you can send out a press release based on winning that in the budget resolution, it gives you some impetus but it doesn't really take it, doesn't make it happen. You have got to move away from that. The more you do that, that is where you really offend Members; if they have to face line item votes on something that really doesn't make that much difference, that is when you begin to offend people in terms of the process.

Mr. **Regula**. I noticed you touched on the need for common assumptions, that is OMB, CBO, et cetera.

Mr. **Panetta**. Yes.

Mr. **Regula**. Do you arrive at any way that you think we could get that accommodation so that we would be dealing with a set of common assumptions, avoiding all of this problem that you know will arise?

Mr. **Panetta**. Yes.

Mr. **Regula**. When you work from two different bases?

Mr. **Panetta**. I think the only way it is going to happen is if you could get the Speaker, the minority leader, the majority leader on the Senate side and the minority leader on the Senate side to say, look, we want to sit down with OMB, CBO, resolve some of these differences as to what are entitlement programs and make almost a leadership agreement to that effect.

Mr. **Regula**. Should we formalize that in any revision in the budget? We could create a structure to do that.

Mr. **Panetta**. That is a possibility. I notice some of the statutory recommendations that have been proposed recommend a board that would actually deal with those issues.

I think perhaps if you wanted to set some kind of a system whereby the leadership, in conjunction with the OMB and CBO, would, prior to discussions on the budget resolution, agree as to basic assumptions, and basic ground rules, that that would do an awful lot to get us away from playing games on assumptions and numbers.

This is an area that I think has also undermined the budget process, because once we agree to a certain set of assumptions, then we tell committees they have to do something based on those assumptions.

If you then come back and say these assumptions are all wrong, then everybody is trying to figure out what are the ground rules.

This year, it was very helpful to have the President, in conjunction with the Congress, say these are the assumptions we are going to go with, and that helps focus then the issue on the priorities as opposed to the technical assumptions that, frankly, nobody has the answer to.

Everybody has a guess on that, and what you are looking for is the best guess of where you are going in the future. It would do an awful lot to help us if we could try to resolve that problem early on.

Mr. **Beilenson**. Mr. Bonior?

Mr. **Bonior**. Thank you, Mr. Chairman. Leon, during the debate on the tax bill that was recently passed in the Congress, you gave a short speech and pointed on the House floor to the closings of numerous tax loopholes or tax expenditures, and by the way that had been put in the bill just the year prior, in the so-called Tax Recovery Act.

My question is how do you feel about requiring a ceiling on tax expenditures. We discussed this personally and you seemed to be sympathetic, but one of the issues that we will face as a task force in recommending future changes is this ceiling, because what I think will happen and is already happening, people going to the committee because they can't get in on the floor.

I would like your opinion dealing with that.

Mr. BEILENSON. And support for your proposal?

Mr. PANETTA. I think I do support your basic thoughts on that, and the proposal that you have introduced.

My concern is that we ought not to leave any doors open so that you could bypass the process. What has happened is that we have, through all kinds of credits and deductions, created almost a hemorrhage on the revenue side. We are just now beginning to look at the whole picture, and the whole picture includes revenues, and if we are going to put limitations on the credit budget—which I favor incidentally, I think Mr. Mineta is correct on the credit budget issue—we ought to look at that and set some controls on it, then we ought to do the same thing on the revenue side, because it really is part of the overall picture in the budget.

You can't simply say that that is not one of the factors that has to be considered in terms of what the final budget should look like.

Also, I think ultimately it would force the Ways and Means Committee to be a little more careful about the kinds of doors it wants to open in that area. I am one of those, very frankly, that believes we ought to get back to a simpler and fairer approach in taxation, and try to eliminate the tremendous number of loopholes that have been established, mainly because what has happened is we don't want to do it directly any more.

We try to do it indirectly, and somehow it sounds better politically if you could do a tax credit or a tax deduction as opposed to providing direct funding, but it still costs money. It still hurts us in terms of revenue.

Mr. BONIOR. And your feelings on the capital budget proposal that Mr. Mineta suggested, how do you feel about that?

Mr. PANETTA. I think it is important for us in terms of the infrastructure in the country to have a better idea just exactly what we have, and perhaps at least having a capital budget or an analysis of what our capital assets would be, I think, would be very helpful.

I would like to see that, and I think it is important for us to see it.

Whether or not it ought to be included in a combined budget, I am not prepared, frankly, at this point to say that that ought to happen, because I think you could use the capital budget then to distort what you are doing in some other areas.

But I do think that putting that analysis together would be a healthy step for the budget.

Mr. BEILENSON. Mr. Hall?

Mr. HALL. Thank you, Mr. Chairman.

I have one question. I read your statement very briefly, and I didn't see that you addressed the question of supplemental bills. What do you think about the number of supplemental bills we have and do you have any idea or any way to deal with them?

Mr. PANETTA. It is a good question. That is one of the things that is always avoided when you talk about budget reforms. Everybody is very big on developing very tough resolutions, but nobody looks beyond that to try to adjust to the realities of future action.

I wish I could say that you could do away with supplementals, because obviously that would really make the budget resolution that much more effective, but the realities of dealing with Government and with life in this country are such that the assumptions are never 100-percent accurate.

You always have to deal with emergencies as they develop. You always have to deal with the economic situation as it changes, and so for that reason, I think supplementals are a reality which you can't get away from.

Having said that, I think that you could limit the number of supplementals.

We seem to be running now almost three or four supplemental bills a year. I think it ought to be combined into one supplemental, and allow that one supplemental to be offered.

I don't think you can get away totally from supplementals but you can limit the number.

Mr. **Beilenson**. I have two very quick questions. First, you are arguing that when we wrap a lot of things into large bundles we are doing ourselves a disservice and I thought you were speaking specifically about continuing resolutions.

Are you also arguing against the omnibus budget bills as suggested by Mr. Obey and Mr. Gephardt?

Mr. **Panetta**. Yes; I don't agree with that.

Mr. **Beilenson**. Second, when we talk about a biennial instead of an annual budget process, are we talking about a budget resolution that is passed every 2 years only, or are we talking about the cycle simply with respect to the authorization and appropriations processes themselves?

Mr. **Panetta**. A budget resolution in the context that I am talking about it would only be once every 2 years.

Mr. **Beilenson**. Is that feasible? You spoke about the nonfeasibility in some areas, but perhaps it would be feasible in others?

Mr. **Panetta**. I think if the budget resolution could set some targets, I guess the problem you would have is, as I said in the defense area and maybe three or four other areas.

Mr. **Beilenson**. We have such problems. As you and Mr. Mineta and others pointed out earlier, conditions change so much, for example, between the time we pass the first and second budget resolution in a single year. So I wonder whether you can stretch the budget process over a 2-year period without finding that you are passing revised budget resolutions all the time.

Mr. **Panetta**. I understand the concern, but right now, what we do is we do one and then within almost a 3- to 4-month period we do two, and then within another 6-month period, we do three.

That is the process we are in right now. What I would suggest is that we limit it. We do one, and then in the next year, as you start to get into the appropriations process and you begin to have a better idea of where that is going, then you do two, and limit it to that.

I think——

Mr. **Beilenson**. The second would last 2 years.

Mr. **Panetta**. That is right.

Mr. **Beilenson**. But you might take action in between those years.

Mr. **Panetta**. That is right.

Mr. **Beilenson**. Thank you very much. We will see you at 2.

[Whereupon, at 12:20 p.m., the task force recessed, to reconvene at 2 p.m., the same day.]

AFTER RECESS

[The task force reconvened at 2:15 p.m., Hon. Anthony C. Beilenson, chairman, presiding.]

Mr. **Beilenson**. Mr. Aspin, thank you for coming back.

STATEMENT OF HON. LES ASPIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. **Aspin**. Thank you, it is my pleasure to be here, because I think what you are doing is very, very important. It is so important that everybody understand each other's feelings about this issue, and I am really happy to be able to come and talk to you about the subject and to have a chance to discuss some things with you.

Let me limit my testimony to two points. I am the chairman of the Scorekeeping Task Force over at the Budget Committee, which means that I don't have so many recommendations for what we could do to change the Budget Act the way Norm Mineta or Leon Panetta have, but there are two things I thought would be relevant that I have come across. These are two charges against the budget process.

One of those is the claim that Congress does not stick by its targets, that essentially this budget process is a sham, that we pass a budget resolution, and then somehow we proceed to ignore it, and at the end of the year, of course, the deficit is enormous, although the budget resolution said it was going to be small.

The best example of that kind of feeling is a recent OpEd article by Bill Simon in the Washington Post, and let me quote what he said. He said, "The budget resolutions have never, I repeat, never been lived up to." Simon's sentiment is clearly out there in terms of a number of people who believe what he said.

The second issue I would like to discuss with you is the question about whether the budget process has in fact slowed up the appropriations process, so that the budget process is the cause for the problem of us beginning every fiscal year with hardly any appropriation bills in place, and in fact more and more stuff coming under the continuing resolution.

I would like to present to you some evidence on both of those issues.

Let me start with the first one, the question about Congress and the budget targets. Does Congress make the budget targets? Has it made the targets since the Budget Act has been in place? The Budget Act passed in 1974. We had a dry run year in the following year, so really we have had 6 years of experience with the budget resolution now, 1976 through 1981, 6 years of budget resolutions.

I would like to refer you to that chart over there, or the charts that you have before you, which give for each of those years, 1976 through 1981, what the budget resolution said the expenditure level should be, what actual expenditures were, what the budget resolution said revenues should be, what revenues actually were, and what the budget resolution said that the deficit would be, and what the actual deficit was.

[Note: The charts referred to appear at the end of Mr. Aspin's remarks.]

In looking at the charts, just to go down each of the categories, under expenditures, we made the budget expenditure targets in 1976, 1977, and 1978. In those 3 years, expenditures were less than in the budget resolution. In the other 3 years, expenditures were higher than the budget resolution targets.

On the revenue side, also out of 6 years, we made the targets in 3 years: in 1978, 1979, and 1980. In each of those years the actual revenues are more than the revenues estimated in the budget resolution, so we made the revenue targets.

The net effect of those two columns is that we actually had deficits less than the projected deficit in the budget resolution 4 years out of 6, in 1976, 1977, 1978, and 1979. In each of those 4 years the actual budget deficit was less than was anticipated in the budget resolution that passed Congress. The last 2 years the deficit was higher than was anticipated in the budget resolution.

On the whole then I think you wouldn't say that the Congress has never, I repeat, never made its budget resolution. In fact, it is doing fairly well. It has made three out of six on expenditures, three out of six on revenues, and four out of six on deficits.

Congress has—and I think you would have to concede the critics some points here—had great difficulty recently making the targets. The important question is why?

If we miss those targets, what is the cause for those targets being missed? Why were the targets missed? The critics would say, looking at just the expenditure side, where we usually focus on, that Congress is busting the budget.

In going over budget expenditures, 1976 through 1981, there are a number of reasons why spending might be more than the budget resolution.

One, which is most often what people think about and the one that comes most readily to the mind, is that somehow Congress appropriated more money than was in the budget resolution. Congress ignored the budget resolution. We busted the budget, went over the budget resolution.

However, that is only one possibility. A second possibility of why spending for the fiscal year might be more than is in the budget resolution is that the economic predictions that went into the budget resolution turned out to be incorrect.

For example, if we estimate that the unemployment rate is going to be 6 percent, and then the unemployment rate turns out to be 9 percent, we end up spending more than was predicted for unemployment, for welfare, and for other things that are affected by unemployment. That means that spending might actually go over budget and we miss the targets.

The key variables here are the inflation rate, the interest rate, and the unemployment rate. If we underestimate any of those, spending is going to be more than was anticipated in the budget resolution. For example, if inflation is higher, there is some 40 percent of the budget that is now indexed to inflation, and budget expenditures are going to go up. The same with interest rates.

If interest rates are higher than anticipated, then the cost of debt service will be higher than was anticipated in the budget resolution.

The third area affecting spending is executive branch actions. Assumed in every budget resolution is that the executive branch is going to take certain actions, oil-shale leasing, disposal of assets, certain agriculture programs. The executive branch has discretionary power in these areas to spend more or less than assumed in the budget resolution.

When Congress sets up the budget resolution, they assume that the executive branch is going to behave in certain ways. If the executive branch behaves in ways other than is assumed in the budget resolution, that affects expenditures and makes them different from the budget resolution.

Finally the rate of spending might be different than the budget resolution just because it is estimated wrong. This happens particularly in public works and in defense areas. Let me give you an example of defense in aircraft carriers. If we build an aircraft carrier—and in this year's budget, we have two, $3.5 billion each, $7 billion in budget authority—the outlay expenditure is an estimate based on how much of that $7 billion is going to be spent out over the next 7 years that it is going to take to build those two aircraft carriers.

If we miss, and if we estimate that so much is to be spent in the second year and it turns out that more is going to be spent in the second year and less in the third year, that too affects expenditures.

So you have got several factors that can cause actual expenditures to be higher than in the budget resolution.

A study of the importance of these factors has been done by CBO. They did a study for 3 years. They are looking at the fourth year now. They looked at 3 years, 1978, 1979, and 1980, and broke down into five different categories the causes for actual spending diverging from the budget resolution.

Legislative action is the first one. What the study shows is that in 1978, legislative action was actually $1.4 billion less than was in the budget. In 1979 it was $1.2 billion less than in the budget. In 1980 it was $2 billion more than was in the budget.

The real problem, and an increasing problem, is economic changes from the forecast. Incorrect economic predictions caused expenditures to be $10.8 billion more than anticipated in 1980.

Administrative action caused expenditues in 1980 to be $5.3 billion more than anticipated.

Estimating errors, that is, the outlay rate turning out to be different than estimated, caused expenditures to be $12.7 billion more in 1980 than was estimated in the budget. Finally disasters, unexpected, is a fifth category. A certain amount of money is set aside in the budget for disasters. It is assumed because of mathematical probability certain kinds of disasters are going to happen with a certain mathematical frequency.

If they do more or less than that, that can affect that outcome, and if you get a big problem like Mount St. Helens, you might affect it a great deal.

Anyway, the 3-year net over there on the right-hand side shows that in fact Congress isn't really the problem. Over the 3 years Congress has spent less than was anticipated. They have stayed within the budgets. The economic changes are the big difference. Administrative action is the second biggest, followed by estimating errors and then disasters, unexpected weather, and other kinds of things.

The net conclusion of this is that this budget process works better than popularly perceived. It is working pretty well. Recently we have been having trouble with it but if you look at it over the last 6 years, it hasn't done badly.

Second, when it has not done well, it has been essentially because of things that Congress has not been able to keep control over, forecasts, technical estimates, administrative action, and other things that have caused spending to be over budget.

It is not to say that we don't have a problem when we estimate a budget deficit of only $20 billion and it turns out to be $60 billion. That is a serious problem, but the question is how do you correct that. One thing, and I think it has been mentioned several times and by some of the speakers I heard this morning and presumably by other people you have had as witnesses, is to try to get an agreement on the economic forecasts between the administration and the Congress before you put together the budget resolution. I think that would be one thing that you could try to get better economic forecasts.

Having said that, it doesn't mean that we are always going to hit the target. Economic forecasting is an inexact science, and we are going to miss. It is going to happen that we are going to have more spending than anticipated because the economic forecasting turned out to be wrong. The only thing you can say is that you should try and eliminate some of the obvious incentives to people offering too rosy an economy scenario.

Let's turn to the second issue, the claim that the budget process so snarls up the appropriation process that you can't get any work done, that we always end up with continuing resolutions, et cetera.

To assess this claim you start with the fact that the Budget Act requires the first budget resolution be passed by Congress by May 15. That schedule gives 4½ months for the appropriations process to produce the appropriation bills before the fiscal year begins on October 1.

The history of when the first budget resolution has been in place is on the chart. It is usually around May 15. There are 2 years where we missed it by quite a bit. In 1981 we didn't have a budget resolution until July 11, and for the fiscal year 1983, which is the one we just passed this spring, we didn't have that in place until June 23. We have missed it by quite a bit in 2 years, but basically, 5 years out of 7, we have made the target pretty well.

The 2 years we have missed, it is interesting, are 2 years during which similar things occurred. There were big differences between the White House and Congress as to what should be done. Summit meetings were called, and efforts were attempted outside of the normal budget process to resolve the differences. That inevitably resulted in delays.

In 1981, Jimmy Carter withdrew his budget and submitted a new one. This year, of course, we had the big meetings between the President and the Gang of 17 and all of that. It meant that the process again took longer than ordinary. Still, these kinds of things are extraordinary happenings.

Let me turn now to some other aspects of the appropriation process. One is the average number of days between the adoption of the first budget resolution and the House Appropriation Committee reports. What the evidence shows is that it usually takes about 30 days from the time that the House's first budget resolution passes Congress to the times when the House Appropriation Committee reports the appropriation bills, just reports them out, without any further action.

If you look at the numbers, you see that the period has stayed fairly steady in 1977, 1978, 1979, 1980, 1981, roughly 30 days throughout that time. 1982 is a big difference, and 1983 will show a big difference again too, but let me talk about that later.

The second line on the chart is the average days between when the House Appropriation Committee reports the bill and final enactment. In other words, once the House Appropriation Committee reports the bill, then the next steps are it has to pass the House, it has to pass the Senate, has to come out of conference and be signed by the President.

The time that it takes, once the House Appropriation Committee reports the bill to final completion has, as you see by looking at the chart, gradually increased over the years. It used to take us 2 months. In 1977 it took 2 months from the time the House Appropriation Committee reported their bills to the time there was final action on these bills, and in 1977 we passed 13 appropriation bills before the fiscal year began.

Since then, the process has gradually deteriorated, until now it is taking 4 months from the time that the Appropriation Committee reports its bills until final action, and the number of appropriation bills that have been passed before the beginning of the fiscal year—that is the number in line 3 there—has gradually gone down.

In 1977 we had 13 appropriation bills in hand before the fiscal year began. In 1978 it was 10, 1979 it was 5, in 1980 it was 3, in 1981 it was 2, in 1982 it was 1, and in 1983 it is going to be zero. We have got one bill that has passed the House and nothing reported out of the Senate, and we are a few weeks away from the beginning of the fiscal year. We are not going to have any in 1983.

To turn back to the first line of that budget, why is it that in 1982—let me finish up here because I guess we are going to have a quorum call and a vote—it took 75 days between the time the budget resolution passed and the time when the first appropriation, the average appropriation bill, came out of the Appropriation Committee.

Essentially, when you have a big reconciliation year like we had last year, and we are going to have this year for the 1983 fiscal year, what you end up with is a big delay, because everything is put on hold while we go through reconciliation. Everything was put on hold this year while we passed a reconciliation bill and while we passed a tax bill, so the appropriation bills don't come out until after first budget resolution passes and we go through a reconciliation bill and a tax bill.

Now we are already in August before those two things happened. Then we get a 2-week recess. Then we are back after Labor Day with no appropriation bills passed, and we have got one passed so far, which is military construction. We are doing a second one now, which is HUD. We will probably get two or three others at least past the House before the end of the month and the start of the fiscal year, but probably nothing in the Senate and nothing out of conference.

There is the problem. The question is what is it that is causing these delays. I am not sure what is causing the creeping up of the number of days in the second line. The only thing I can think of is that appropriation bills are becoming more and more contentious, and as they are becoming more and more contentious you end up with the process taking a long time.

When you have busing and abortion, you set off filibusters in the Senate. Filibusters take time. When you have got an abortion or a busing thing on an appropriation bill, like we had the Hyde amendment in the House and not in the Senate, the conferences take forever to resolve.

Clearly, that is part of the reason why it is taking longer for appropriation bills to go through the system, but that may not be the entire answer. I am still groping for a complete answer.

Just to finish, I think it is true that there is a spending problem in the sense that at least lately we have been having trouble meeting the spending targets and the deficit targets. It is wrong to say that the budget process is a failure, because when you look over the 6 year history it has been pretty successful. We are having some trouble lately, but I would contend that the record shows that the problem is not what Congress is doing, but really the other factors that influence expenditures rather than congressional appropriations.

Second, the issue of delays, and what is it that is causing delays in the appropriations process? Again I would say the evidence shows that it is not really the budget process which is causing the problem. In fact the real culprit is that the number of days between when the House Appropriation Committee reports its legislation and when it finally is enacted is longer and longer and longer, and that is what is causing the problem of the beginning of the fiscal year coming and little or no appropriation bills passed.

Thank you.

[Material submitted for the record by Mr. Aspin follows:]

Date of adoption of first budget resolution

Fiscal year:	
1977	May 13, 1976
1978	May 17, 1977
1979	May 15, 1978
1980	May 23, 1979
1981	June 11, 1980
1982	May 21, 1981
1983	June 23, 1982

EFFECT OF BUDGET PROCESS ON APPROPRIATION BILLS

	1977	1978	1979	1980	1981 [1]	1982
Average days between adoption of first budget resolution and House Appropriation Committee reports	30.8	27.8	25.5	28.7	29.8	75.5
Average days between House Appropriation Committee reports and final enactment of appropriation bills	62.8	93.5	113.8	134.8	125.8	129.6
Number of appropriation bills enacted at beginning of fiscal year	13	10	5	3	2	1
Number of appropriation bills enacted	13	12	12	11	9	10

[1] Late 1st budget resolution.

SECOND BUDGET RESOLUTIONS AND ACTUAL RESULTS

[In billions of dollars]

	Expenditures		Revenues		Deficits	
	Budget resolutions	Actual	Budget resolutions	Actual	Budget resolutions	Actual
1976	477	459	387	381	90	78
1977	413	402	363	357	51	45
1978	458	450	397	401	61	49
1979	488	494	449	466	39	28
1980	548	580	518	520	30	60
1981	632	657	605	599	27	58

Note.—The figures for 1976 include the transitional quarter July 1, 1976, to Sept. 30, 1976. They cover, therefore, a 15-mo period from July 1, 1975 to Sept. 30, 1976.

CAUSES OF ACTUAL SPENDING DIVERGING FROM BUDGET RESOLUTION

[In billions of dollars]

	1978	1979	1980	3-yr net
Legislative action	−1.4	−1.2	2.0	−0.6
Economic changes from forecasts	.1	5.9	10.8	16.8
Administrative action	.7	1.5	5.3	7.5
Estimating errors on rate of spending	−9.7	.6	12.7	3.6
Disasters, unexpected weather, et cetera	2.0	−.6	1.2	2.6
Total	−8.3	6.2	32.0	29.9

Mr. BEILENSON. Are there any questions of Mr. Aspin? Mr. Bonior.

Mr. BONIOR. This is very helpful testimony. The one thing that I would question, though, is your last guesstimate. You admitted you didn't know, that the appropriation bills that had become contentious over the last couple of years may be the reason for the delay. That strikes me as odd, because it seems to me that we had much more debate in 1977, 1978, and 1979 on these appropriation bills on those controversial amendments than you have lately.

Mr. ASPIN. No.

Mr. BONIOR. If my memory serves me right, it used to take us quite a bit longer to do those bills. Maybe I am wrong.

Mr. ASPIN. I don't know.

Mr. BONIOR. Rather I would think the reason that the delays have taken place in the latter few years is the reconciliation process.

Mr. ASPIN. Be careful. Reconciliation process has been a problem during the last 2 years, 1982 and 1983. Now, this explains the first line, the average days between the adoption of the first budget resolution and the House Appropriation Committee reports, that jumped from 29 days in 1981 to 75.5 days in 1982. That, you are right, is reconciliation.

Mr. BEILENSON. And will this be true again this year?

Mr. ASPIN. And will this be true again in 1983 because we had not only reconciliation but a tax bill that was part of the deal? Both were part of the budget resolution. We had to raise some money through the tax bill, so that when the budget resolution was finally in place on June 23, we had some targets to make for reconciliation and we had to do the tax bill, which turned out to be the middle of August. So, again, we have a big delay this year and last but reconciliation and the tax bill cannot be the reasons for what seems to be a big problem, which is that second line, the average number of days between House Appropriation Committee reports and final enactment of the appropriation bills, has increased so much.

For some reason—and you may be right historically, now that you say that it does sound right, that we used to argue about those things more in those days than we do now. You may be right about that, but for some reason this thing has gradually increased year by year, so that it used to take us 2 months between the time the appropriation bills came out of the committee to the time they were enacted and it is now taking 4 months. I am not sure what causes this.

Mr. BEILENSON. If you will forgive me, if I may interrupt, this year part of that delay there in that first line of average days will also be attributable to the 302(b) allocation?

Mr. ASPIN. That took a long time too, you are right.

Mr. BEILENSON. Longer this year.

Mr. ASPIN. Yes. Now, that was going on while the reconciliation process was going on, so whether it added to the delay I am not sure, but the point is that the Appropriation Committee doesn't really report out the appropriation bills until after reconciliation, and I can understand that. You don't know exactly what to report because you don't know how reconciliation is going to come out.

When you have got a reconciliation that gums up the works and takes up 6 weeks in the middle of this process, and if you have got a tax increase bill which also is tied in there, because a lot of people were saying, well, I am not going to vote for the tax increase unless reconciliation passes, and others saying I am not going to vote to cut spending unless we also vote to increase the taxes, clearly, that takes a big chunk of time.

Now, reconciliation, of course, is associated with retrenchment. Part of our problem with this budget process is that it is an incremental process. It works best at the margins, and what we are forcing through this system for fiscal year 1982 and fiscal year 1983, is really revolutionary changes through a mechanism which is designed to effect marginal changes, and that I think has been part of the difficulty.

It is not all of the difficulty, because look at that second line there, that 62 to 93 days, 113 days and 134 days. I mean, that is a gradual increase in the appropriations process that I don't quite understand. Why is it that it takes longer and longer for appropriation bills to work through the system?

Mr. BEILENSON. We will submit that last question to the Appropriation Committee and see what their response is.

Mr. ASPIN. As a matter of fact, I sent a little copy of the report over to the Appropriations Committee and am planning on meeting with them and asking this.

Mr. BEILENSON. We only have about 4 minutes to vote, so I suppose we ought to break at this time. Should we ask Les back or should we thank him at this time?

Mr. ASPIN. Thank you very much. I appreciate the chance to come.

Mr. BEILENSON. We will be back after however many votes we have.

[A brief recess was taken.]

Mr. BEILENSON. We might as well start again. If there is no objection, we will accept into the record either at this point or somewhere at the end, statements which have been submitted to us by Mr. Reuss of Wisconsin and Mr. Ireland of Florida, neither of whom were to testify today but each one of whom has prepared a statement for the committee. [See pp. 69 and 71.]

Mr. BEILENSON. The next witness we have before us is our friend from Pennsylvania, Mr. Bob Edgar. We will be happy to hear from you, sir. Is Mr. Clinger coming along or are you speaking for him too?

STATEMENT OF HON. BOB EDGAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. EDGAR. Bill is not able to come along. He is involved in some hearings this afternoon on the issue I wish to talk about. I would like to ask unanimous consent to include his statement in the record, if that would be possible. [See Mr. Clinger's statement on page 99.]

Mr. BEILENSON. Without objection, that shall be the order.

Mr. EDGAR. Mr. Chairman, Congressman Bill Clinger and I wanted to testify jointly because we have two areas of concern we think would be helpful in your discussions looking at how to change the budget process and make it more acceptable, more targeted, and perhaps more helpful to those of us in Congress who have to live with the process.

I agree with the comments that have been made this morning and later this afternoon that a lot of aspects of the budget process, despite the public perception, are working very well. There are, however, a couple of areas that we think we can help with.

I would like to thank you and members of the task force for holding these hearings on the reform of the Federal budget process. There are two issues which I wish to address today. First and foremost, I am here to make the case that the Federal Government ought to present separate capital and operating budget plans within the framework of a unified budget. Let me repeat that we wish to propose the idea of a capital budget within the framework of a unified budget.

Second, I will touch briefly on the 2-year budgeting cycle which I think is essential to make the congressional process and congressional schedule much more appropriate so that in the off-budget year we can really look at oversight-foresight hearings of the regular committees.

Nearly 24 years ago Senator Hubert Humphrey called upon Congress to establish a Federal capital budget. He said the following:

> Mr. President, it has been my observation that discussions of the budget engender more emotional outbursts than rational thought. One of the main reasons is that our annual budget report does not reveal an accurate fiscal picture. No business would think of lumping current expenditures in with its investments; yet that is just what our Federal Government does under the present bookkeeping system.
>
> I say that it is time that we put our bookkeeping system in order. It is time that we adopted a modern, up-to-date capital budget . . . until we do, there will be all kinds of heat, thunder, and fury about budgets, but very little light and constructive information and return.

Senator Humphrey's words, in large part, ring true today.

I and many of my colleagues believe that the adoption of a Federal capital budget remains the single most important procedural reform for improving Federal policy formulation and for lifting the eyes beyond the blinders of single fiscal year myopia and 2-year political astigmatism. The capital budget is a tool for looking ahead, for raising our sights to take into account the needs of generations to come.

Mr. Chairman, a Federal capital budget was needed when it was recommended in 1959 and it is needed today. Indeed, the case for a Federal capital budget has never been stronger.

We are in an economic emergency. Unemployment in the last year has grown from 7.2 percent to 9.8 percent, the highest level since 1941. More than 10.5 million Americans are looking for work. Interest rates, though declining, remain stubbornly high at 13.5 percent, taking a heavy toll on major sectors of our economy—autos, steel, agriculture and housing, for example—and producing a rising number of small business failures. Business bankruptcies today are 2.5 times greater than during the same period in 1981.

In addition, Mr. Chairman, I am afraid our economy faces another hidden crisis. I refer to the critical decay of our public infrastructure—the vast vital network of roads, bridges, tunnels, water lines, and transit systems—which we have neglected through shortages of funds, inadequate maintenance, and pork barrel decisionmaking. Infrastructure represents the economic foundation of any modern industrial society. If these foundations are neglected, our prospects for economic recovery and growth will remain grim.

Rebuilding this infrastructure is the single most expensive Government challenge of the 1980's and 1990's. Stagnant revenues, enhanced responsibilities and immobilizing interest rates make it extremely difficult for Federal, State, and local governments to fulfill their traditional role of providing and maintaining public infrastructure facilities needed for economic expansion and development. It has been estimated that the United States will have to spend between $2.5 and $3 trillion this decade just to maintain existing levels of service on our public facilities. Yet, at present expenditure levels, less than a third of these needs will be met.

As chairman of the Northeast-Midwest Congressional Coalition, I am particularly aware of the problem in our older areas, but the current crisis is evident in all parts of the country, not only in the older mature Northeast and Midwest but also in the fast-growing Sun Belt.

Budgeting for public works programs happens on a piecemeal project-by-project basis. Once we have authorized the camel's nose into the tent, we turn away, only to be shocked when the hump begins to threaten the whole fiscal structure. As an 8-year member of the Public Works Committee, I am all too aware that most capital expenditures are made in the absence of even the most basic information and policies. The Federal Government has no inventory of its physical investments, no assessments of the condition or capacity of its existing facilities, and no plan for maintenance, repair, rehabilitation, and new construction.

It is for these reasons, to reform the fragmented approach to public works decisionmaking that Representative Bill Clinger and I recently introduced the Federal Capital Investment Budget Act, H.R. 6591. H.R. 6591 requires the Federal Government to join most State and local governments and private businesses in presenting separate capital and operating budget plans each fiscal year.

This change would allow the Federal Government to bring together in one place for the first time an inventory of its investments in buildings, roads, bridges, water, and transit systems.

It would provide a clear picture of our national assets, how much they cost to build and maintain, and what sources of revenue they draw upon.

Adoption of such a capital budget system would significantly enhance the structure and accountability of the budget process, but it would not alter the Congressional Budget Act in any way. Specifically, H.R. 6591 would require a special analysis of our capital investments to be included with the fiscal year 1984 budget, and a full capital budget to be prepared for fiscal year 1985. In addition, it would call for an annual inventory and needs assessment of our Nation's public facilities.

Proposals for a Federal capital budget have been before the legislative and executive branches of Government for many years. In fact, a form of it was actually adopted 82 to 0 in the Senate as an amendment to the Employment Act of 1945 by Senator Taft. The amendment failed in the House.

In 1949 the Hoover Commission on Government Organization on two occasions recommended that the Congress adopt the capital budget principle of distinguishing between capital investments and current operating expenses. I quote from the Commission's report:

> There is at present constant confusion in Federal budgeting and accounting because current expenditures and capital outlays are intermingled. These two types of expenditures are essentially different in character and should therefore be shown separately under each major function or activity of the budget.
>
> We recommend that the budget estimates of all operating departments and agencies of the government should be divided into two primary categories—current operating expenditures and capital outlays.

Since that time, several bills have been introduced in Congress directing the President to include a capital budget in his budget submission. Senator Humphrey introduced capital budget bills in 1952, 1955, and 1959. Senator Magnuson introduced similar legislation in 1957 and 1959. Representative Ullman and Senator Morse introduced identical bills in 1959 to require the adoption of a capital budget by the Federal Government. In its report in 1959, the Joint Economic Committee, chaired by Senator Paul Douglas, recommended a capital budget, noting that "the adoption of sound budget principles which would separate capital outlays from operating changes is needed."

Another longstanding advocate of capital budgeting, the AFL–CIO, noted in 1960 that these budgetary reforms are long overdue and badly needed to establish commonsense and realistic accounting procedures in the largest and most important business on Earth, the U.S. Government.

Since the 1960's, the capital budget concept has not had serious Federal consideration until recently. Last December, Representative Clinger and I, along with 17 other colleagues, including such diverse leaders as Speaker Tip O'Neill and Representative Jack Kemp, sent a letter to the President of the United States, Ronald Reagan, asking him to consider a Federal capital budget. In addition, we now have 51 cosigners on H.R. 6591 and similar legislation has been introduced in the Senate by Senator Dodd.

In an August 1, 1982, interview with the New York Times, Treasury Secretary Regan said that it would be appropriate for the Federal Government to join State and local governments and private businesses in preparing separate capital and operating budget plans each year.

Additional support for a Federal capital budget recently has come from representatives of the Morgan Guarantee Bank, the Conference Board, and the Council of State Planning Agencies.

Mr. Chairman, you may well ask at this point if capital budgeting is so good, why have we not adopted it. It is not merely congressional inertia. Unfortunately, there is real opposition to the concept.

In 1967 the President's Commission on Budget Concepts concluded that capital budgeting would not be appropriate, stating that, "There is little merit in proposals to exclude outlays for capital goods from the total of budget expenditures that is used to compute the budget surplus or deficit." It recommended against a capital budget in this sense. In supporting its position, the Commission made the following arguments.

One, the use of a capital budget would not reduce the size of Federal spending, but only serve to disguise the way in which the deficit or surplus is presented.

Two, it would promote an inflationary bias in Government by leading to the financing of all capital outlays through borrowing.

Three, it would tend to distort decisions about the allocation of Government resources. It would introduce a bias in favor of investments in bricks and mortar as against investments in people, in jobs or in national security.

Four, it necessarily would involve arbitrary definitions of Government capital assets and some insurmountable accounting problems.

Five, capital budgeting isn't needed to provide information on capital outlays separate from current outlays. In fact, every budget document since 1951 has contained this type of information in a special analysis entitled, "Investment, Operating and Other Budget Outlays."

The Office of Management and Budget now use this report as a basis for its opposition to a Federal capital budget. And I quote from a February 6, 1982, letter Representative Clinger and I received from the administration:

> There is a general consensus that the commission's recommendations remain valid. From both a policy and a technical point of view, the disadvantages of a capital budget for the Federal Government appear significantly to outweigh the advantages.

I can only add that I and 51 of my colleagues do not share this kind of general consensus, nor does the 1967 President's Commission on Budget Concepts itself object to capital budgeting as strongly as OMB would have us believe, for the 1967 budget commission report also said:

> Use of a capital budgeting, rate of return and other decision techniques for government agencies promotes efficiency. Therefore, the commission supports including in the financial statement of government agencies, the net gain or loss from the enterprise computed on a depreciation imputed interest basis.* * *

For the Government as a whole, estimates of the value of government physical assets and the depreciation of those assets would be useful for studying economic growth. Such calculations might well be made by accountants as part of the regular periodic statement on national economic income and wealth, and the Commission would endorse the publication of such estimates in a special tabulation released with the budget, once reliable and useful data were available.

Apparently these recommendations of the Commission have been ignored to this day, while the arguments of the Commission against capital budgeting are sited as gospel.

Mr. BEILENSON. Mr. Edgar, forgive me for interrupting. This is interesting and useful, but I am not sure it is necessary for you to continue to go into quite so much detail. Your testimony is good and very helpful to us, and your entire statement will be put in the record. If you will forgive me, maybe we can jump for a moment to your second major point, only because we are not going to be spending huge amounts of time today and on Friday discussing these specific details. You make a very good argument, and we will go back and discuss this later.

Mr. EDGAR. I can be very brief on the second point and sum up the first point.

Mr. BEILENSON. I only make that request because we have a number of our colleagues who are waiting to testify.

Mr. EDGAR. That is fine. I guess I was interested in going into so much detail because I didn't think that the other Members of the Congress, in looking at the immediate budget question, would deal with this question of capital budgeting.

Mr. **Beilenson**. That is very true, and for that reason your testimony is particularly useful to us, and the fact that you have brought up opposing arguments and answered them quite well is useful to us, too. We will have this before us.

Mr. **Edgar**. Let me just shift to the other point, and I can do that extemporaneously.

It has been my opinion for some time that we ought to have a 2-year budgeting process. I would even go so far as to say 2-year appropriation process.

It seems to me that we have had the experience over the last year and 10 months where all we have done is played with numbers. We have argued very vehemently with the White House and with the administration on how much we should spend on low-income fuel assistance, on student loan programs, on Amtrak and Conrail subsidies, and we have not really looked at the value of these programs in the authorizing committees. We haven't studied them indepth.

I think it would be far more orderly for us as a Congress to have a 2-year budgeting process where in fact when a President took office, in the first year he would live under the budget of the previous President. Then his Director of the Office of Management and Budget, all of his Cabinet officers, plus the Members of Congress in the budget process could look at the figures for the second year of that Presidency, and those numbers would carry over with an inflation factor for the next 2 years.

In the off-year, when we weren't dealing on a day-to-day basis with all the number questions, perhaps we could look at some long-range planning in terms of our capital investments, as well as in terms of whether the basic programs of government are working.

I find it very strange that we are so quick and willing to cut enforcement dollars out of programs like EPA or OSHA and yet never take the time to actually look at what the impact of those cuts are on the very services that are being provided.

I think if we are really interested in cutting waste, fraud, and abuse out of the public budget, we would spend some more time in oversight and ask the authorizing committee to do a better job in authorizing their basic programs so that in the budgeting year we could put numbers that were more realistic within the budget.

There is some other information in the statement, as well as in Mr. Clinger's statement, and I hope that members of the committee and their staffs will take that into consideration.

[Mr. Edgar's prepared statement follows:]

Prepared Statement of Hon. Robert W. Edgar, a Representative in Congress From the State of Pennsylvania

Mr. Chairman, I welcome the opportunity to appear before you today. And I want to thank you and the members of the Task Force for holding this series of hearings on what has emerged as perhaps the most important—and controversial—subject to be considered by this Congress—reform of the federal budget process. There are two issues, in particular, which I wish to address today. First, and foremost, I am here to make the case that the federal government ought to do what most state and local governments and private businesses do—present separate capital and operating budget plans. Second, I believe the federal government should adopt a two-year budgeting cycle.

Nearly 24 years ago, Senator Hubert H. Humphrey called upon Congress to establish a federal capital budget. His message to the nation was clear:

"Mr. President, it has been my observation that discussions of the budget engender more emotional outbursts than rational thought. One of the main reasons is that our annual budget report does not reveal an accurate fiscal picture. No business would think of lumping current expenditures in with its investments; yet that is just what our federal government does under the present bookkeeping system.

"I say it is time that we put our bookkeeping system in order. It is time that we adopted a modern, up-to-date capital budget . . . Until we do, there will be all kinds of heat, thunder, and fury about budgets, but very little light and constructive information and return."

Senator Humphrey's words, in large part, ring true today. The adoption of a federal capital budget continues to be the single most important procedural reform for improving the conduct of the business of the federal government, for setting an example for better program planning at all levels of government, and for casting off the blinders of the single fiscal year point of view in favor of longer range financial planning.

I feel very strongly that this nation will have to come to a capital budget if we are to rebuild our economy and improve the quality of life of our citizens. The capital budget is a tool for looking ahead, for raising our sights to take into account the needs of generations to come.

Mr. Chairman, I hope this Task Force will seriously consider adopting a federal capital budget. The need for this type of budget has not diminished over time. It was needed when it was recommended in 1959 and it is needed today. Indeed, it can be argued that the case for a federal capital budget has never been greater.

We now are in a state of economic emergency. Not since the depression has this nation faced such serious economic difficulties. Unemployment, in the last year, has grown from 7.2 percent to 9.8 percent—the highest level since 1941. More than 10.5 million Americans are looking for work. Interest rates, though declining, remain stubbornly high at 13.5 percent, taking a heavy toll on major sectors of our economy—autos, steel, agriculture, and housing, for example—and producing a rising number of small business failures. Business bankruptcies today are 2.5 times greater than during the same time period in 1981.

In addition, Mr. Chairman, I'm afraid our economic compass is being seriously tilted by a "hidden crisis" found in many states and localities, urban and rural, throughout the nation. I refer to the critical decay of our public infrastructure—the vast, vital network of roads, bridges, tunnels, water lines and transit systems—which we have neglected through shortage of funds, inadequate maintenance, and "pork barrel" decision-making is our future peril. Infrastructure represents the economic foundation of any modern industrial society. If these foundations are neglected, our prospects for economic recovery and growth will remain only a dream.

Rebuilding this public infrastructure promises to be the single most expensive government challenge in the 1980s and 1990s. Falling revenues are combining with an inability to borrow in a way that is making it extremely difficult for federal, state, and local governments to fulfill their traditional role of providing the public infrastructure facilities needed for economic expansion and development. So serious is the decay of these "life-support networks" and so poor the prospects for their refurbishment that the United States is entering a period of crisis far more severe than any in the past. It is estimated that the United States will have to spend between $2.5 and $3.0 trillion this decade just to maintain existing levels of service on our public facilities. Yet, at present expenditure levels less than a third of these needs will be met.

This current crisis is evident in all parts of the country. For a series of forces are now at work that call into question the ability of governments throughout the nation—not only in the older, mature Northeast and Midwest but even in the fast growth Sunbelt—to provide the infrastructure on which their economic future is critically dependent. This collective inability to deal with the deterioration of our basic public facilities has, in effect, created a series of "time bombs" which threaten to undermine the recovery of our nation's economy.

The decline in investment in public capital stock has occurred in virtually every public works activity. Today, one-quarter of our 42,500 mile interstate highway system is worn out and needs rebuilding. One-half of Conrail's rails and roadbeds are seriously decayed. Half of all the communities in the country cannot expand because their water treatment plants are at or near full capacity. Boston continues to lose 20 percent of its water supply through leaky pipes each day, while Houston loses up to 30 percent of its purified water daily through inadequate pipes. And one-fifth of all bridges have deteriorated to the point that they are either restricted or closed.

These statistics point to a long neglect of infrastructure that is costing the nation billions in reduced efficiency, lost productivity, and rising costs. The manager of the Port Authority of New Jersey and New York estimates that the area has lost 600,000 jobs as a direct result of infrastructure deterioration. In Pittsburgh, the U.S. Steel Corporation contends that it is paying at least $1 million a year to detour its trucks 26 miles around a major bridge that the state closed 2 years ago for lack of repair.

Indeed, the decay and deterioration of our basic public infrastructure is beginning to thwart the recovery of our national economy. As a number of recent studies have shown, private sector investment decisions are strongly influenced by the location and availability of reliable public facilities. They are usually a more important locational consideration than are local tax incentives or the availiability of revenue bond financing.

Mr. Chairman, it is my contention that the current practices of the federal government in both the executive and legislative branches are exacerbating this problem and—short of a major "mid-course correction"—the ticking time bomb that represents our nation's infrastructure will go off.

Budgeting for public works programs happens on a piecemeal, project-by-project basis. In fact, most capital expenditures are made in the absence of even the most basic information and policies. The federal government has no inventory of its physical investments; no assessments of the condition or capacity of its existing facilities; and no plan for maintenance, repair, rehabilitation, and new construction.

This procedure is in direct contrast to the approach used in virtually all other policy areas that involve federal expenditures. The General Accounting Office (GAO) in its study, Federal Capital Budgeting: A Collection of Haphazard Practices, notes that nearly every other major federal activity has a specific entity for guiding its direction and for assessing its priorities. This insures that larger national policy goals are pursued in an orderly manner.

GAO goes on to point out that the only capital budgeting tool the federal government now uses—Special Analysis D: Investment, Operating and Other Budget Outlays of the U.S. Budget—did not meet the needs of its analysis. It is prepared after budget decisions are made and cannot be used to support decisions about capital investment policy. It is not designed to be and acccordingly is not a management tool or resource from which policy makers can infer or analyze federal capital investment policies or practices. A policy-level approach to capital investment must be added to the federal government's decision-making process, according to GAO, and sound, up-to-date information is needed to support that approach.

It is for these reasons—to reform the fragmented approach to public works decision-making—that Representative Bill Clinger and I recently introduced the "Federal Capital Investment Budget Act" (H.R. 6591). The present federal budget can be characterized as a "unitary" budget in which no distinction is made between operating and capital expenditures. H.R. 6591 requires the federal government join most state and local governments and private businesses in presenting separate capital and operating budget plans each fiscal year.

This change would allow the federal government to bring together in one place—for the first time—an inventory of its investment in buildings, roads, bridges, water and transit systems. It would provide a clear picture of our national assets, how much they cost to build and maintain, and what sources of revenue they draw upon.

Adoption of such a capital budget system would significantly enhance the structure and the accountability of the budget process. But it would not alter the Congressional Budget Act in any way. Instead, it would amend the authority from which the president makes his annual budget submission to Congress. Only the Office of Management and Budget (OMB) currently has the manpower and resources necessary to prepare a comprehenisve federal capital budget. Specifically, H.R. 6591 would require a special analysis of our capital investments to be included with the fiscal 1984 budget, and a full capital budget to be prepared for fiscal 1985. In addition, it would call for an annual inventory and needs assessment of our nation's public facilities.

This concept of a federal capital budget is neither new nor unique. It is widely used in business accounting and in the budgets of many state, local and foreign governments, although with varying definitions.

Historically, businesses have considered capital budgeting a necessary and proper part of running an effective company. Under a capital budget, expenditures for operating items are separated from expenditures for capital items. The former are considered expenses that are paid for from current revenues. The latter, capital items, are thought of as investments, the costs of which are expected to be recovered in the future and financed by debt borrowing when necessary. In the private sector, capital outlays also are not charged against current sales to determine a firm's profit or loss.

Instead, capital outlays or investments are treated as long-term assets to be financed on a "pay as you use" basis; that is, they are paid for, or depreciated, over their useful lives. This is in direct contrast to the federal government which budgets the total cost of a project—such as a bridge, hospital, or dam—over the 3 or 4 or 5 years it takes to build it, rather than the 10 or 20 or 30 years the asset will be in use.

If business kept books the way the federal government does—without recognizing the asset created by its capital investment—many successful businesses would show markedly lower profits. For example, this type of accounting would have lowered AT&T's 1981 profits to $9 billion from $19 billion. For IBM, it would have reduced its profits by $7 billion that same year.

Like the private sector, most state and local governments have had several decades of experience with capital budgeting. They account for general operating funds and capital project funds in separate budgets. Most state constitutions require only the current budget to be balanced: the capital budget is usually totally or partially financed by borrowing. In this respect, their capital budgets are analogous to those used by the private sector.

However, capital budgeting, as used by state and local governments, emphasizes budgeting from a capital planning and financing rather than from a capital accounting, or business, point of view. Typically, such a budget identifies current and future maintenance and construction capital requirements, presents capital outlays scheduled to be made in subsequent years, and shows the means prepared to finance these investments. It does not include a balance sheet of assets and liabilities, nor does it normally provide an allowance for the estimated depreciation of assets.

In this respect, H.R. 6591—the federal capital budget legislation which Representative Bill Clinger and I have introduced—is similar to the capital budget concept used by state and local governments. While our bill does not take capital expenditures out of the "unified" budget as state and local governments do, it is designed to facilitate the planning and financing of programs which are crucial for long-run growth and development. Specifically, it calls for the president, as part of his capital budget, to include 10 year projections of our construction and rehabilitation needs and expenditures, anticipated operation and maintenance costs, and sources of financing.

The extent to which capital budgeting has been adopted and integrated into the budgetary systems of many foreign governments also lends support to the proposal for a capital budget for the federal government. Such countries as Sweden, Great Britain, Canada, France, the Netherlands, Ecuador, the Union of South Africa and India all have a capital budget system of one sort of another.

Proposals for a federal capital budget have been before the legislative and executive branches of government for many years. in fact, a form of it was actually adopted 82-0 in the Senate as an amendment to the Employment Act of 1945 by Senator Taft. The amendment failed in the House.

In 1949, the Hoover Commission on Government Organization on two occasions recommended that Congress adopt the capital budget principle of distinguishing between capital investments and current, operating expenses. I quote from the Commission report: "There is, at present, constant confusion in federal budgeting and accounting because current expenditures and capital outlays are intermingled. These two types of expenditures are essentially different in character and should therefore be shown separately under each major function or activity in the budget.

"We recommend that the budget estimates of all operating departments and agencies of the government should be divided into two primary categories—current operating expenditures and capital outlays."

Since that time, several bills have been introduced in Congress directing the President to include a capital budget in his budget submission. Senator Humphrey introduced capital budget bills in 1952, 1955 and 1959. Senator Magnuson introduced similar legislation in 1957 and 1959. Representative Ullman and Senator Morse introduced identical bills in 1959 to require the adoption of a capital budget by the federal government. In its report for 1959, the Joint Economic Committee, chaired by Senator Paul Douglas, recommended a capital budget, noting that "the adoption of sound budget principles would separate capital outlays from operating charges is needed."

Another long-standing advocate of capital budgeting, the AFL-CIO noted in 1960 that "these budgetary reforms are long overdue and badly needed to establish common sense and realistic accounting procedures in the largest and most important business on Earth, the U.S. Government."

Since the 1960s the capital budget concept has not had serious federal consideration until recently. Last December, Representative Clinger and I—along with 17 of our colleagues, including such diverse leaders as Speaker Tip O'Neill and Representative Jack Kemp—sent a letter to President Reagan asking him to consider a federal capital budget. In addition, we now have 51 co-sponsors on H.R. 6591 and similar legislation has been introduced in the Senate by Senator Dodd. In an August 1, 1982 interview with the New York Times, Treasury Secretary Regan said that it would be appropriate for the federal government to join state and local governments and private businesses in preparing separate capital and operating budget plans each year. Additional support for a federal capital budget recently has come from representatives of the Morgan Guaranty Bank, the Conference Board, and the Council of State Planning Agencies.

All the recommendations concerning a federal capital budget, however, have not been favorable. In 1967, the President's Commission on Budget Concepts concluded that capital budgeting would not be appropriate, stating that there is "little merit in proposals to exclude outlays for capital goods from the total of budget expenditures that is used to compute the budget surplus or deficit." It recommended against a capital budget "in this sense." In supporting its position, the Commission made the following arguments:

The use of a capital budget would not reduce the size of federal spending, but only serve to disguise the way in which the deficit or surplus is presented;

It would promote an inflationary bias in government by leading to the financing of all capital outlays through borrowing;

It would tend to distort decisions about the allocation of government resources: it would introduce a bias in favor of investment in "bricks and mortar" as against investment in people and jobs or in national security;

It necessarily would involve arbitrary definitions of government capital assets and some insurmountable accounting problems; and,

Capital budgeting isn't needed to provide information on capital outlays separate from current outlays. In fact, every budget document since 1951 has contained this type of information in a Special Analysis entitled, "Investment, Operating and other Budget Outlays".

The Office of Management and Budget (OMB) now uses this report as the basis for its opposition to a federal capital budget. And I quote from a February 16, 1982 letter Representative Clinger and I received from the Administration: "There is a general consensus that the Commission's recommendation remains valid. From both a policy and a technical point of view the disadvantages of a capital budget for the federal government appear significantly to outweigh the advantages."

Mr. Chairman, in closing, I would like to respond to some of the objections that have been raised against capital budgeting. But first, I would like to say that I do not think that the 1967 President's Commission on Budget Concepts objected to capital budgeting as strongly as OMB would have us believe. For the 1967 Budget Commission report said: "Use of capital budgeting, rate of return, and other decision techniques for goverment agencies promotes efficiency. Therefore, the Commission supports including in the financial statements of government agencies the net gain or loss from the enterprise computed on a depreciation, imputed interest basis . . .

"For the government as a whole, estimates of the value of government physical assets and the depreciation of those assets would be useful for studying economic growth. Such calculations might well be made by . . . accountants as part of regular, periodic statements on national income and wealth. And the Commission would endorse the publication of such estimates in a special tabulation released with the budget once reliable and useful data were available."

Apparently, these recommendations of the Commission have been ignored to this day, while the arguments of the Commission against capital budgeting are cited as gospel.

Like most of the earlier proposals, the bill before you, Mr. Chairman, is relatively limited in its scope. It does not propose to establish a separate capital budget, separtely financed, for the federal government. The bill does not replace the present budgetary procedure or eliminate any part of the budget as currently prepared and presented, it merely supplements and adds to it. Certainly, the qualms of OMB should be allayed by the fact that H.R. 6591 simply calls upon the federal government within a "unified" budget to separate its current expenditures from its capital investments. It is not intended to disguise, or rationalize away, our federal deficit.

The legislation also is not a "back door" approach to increased public works. It does not rate any one type of government expenditure as better, more necessary, or more desirable than any other. It separates and distinguishes, but it doesn't set up any category of priority. The federal government needs to bring coherence and order to its capital expenditures—irrespective of whether it increases or decreases public works funding.

Nor does H.R. 6591 provide for any specific methods for financing capital expenditures, as is done in most state and local governments and private business capital budgets. It differentiates capital spending from operating expenses, but it doesn't say that they shall be financed in any different way than they are financed now. They could be, of course, but the bill makes no necessary change in that respect. There is no reason, therefore, that H.R. 6591 would lead to an inflationary bias in government spending.

Finally, OMB contends that all the information needed to separate capital outlays from current outlays can be found in Special Analysis D of the budget. As said earlier, GAO found that this analysis fell far short of accomplishing its goal.

Mr. Chairman, in my opinion, much of the criticism of the capital budgeting principle seems to be targeted against an all-the-way approach to a capital budget. As I've said, H.R. 6591 doesn't go all the way. It only takes the first step in separating out productive capital. Nonetheless, I must say it is a bill of fundamental importance. I am convinced that the full development of our economy will require the establishment of a capital budget. Representative Clinger and I introduced "The Federal Capital Investment Budget Act" as a beginning to the problem—a limited approach which will allow us, as a government, to development a form of the capital budget which is best suited to our needs.

The provisions of this bill are a modest and constructive first step in making the federal budget procedures more understandable and meaningful, in giving us a better picture of where we are going, and where we should be going. It should help us raise our sights and look beyond the next fiscal year.

Having said that, I would like to say that I personally think there might be some very good arguments for going beyond the steps that H.R. 6591 would take. In addition to the separation of capital expenditures from operating expenses, capital outlays could be treated as long-term investments to be paid for on a "pay as you use" basis, capital investments could be financed by debt borrowing, and capital expenditures could be recognized as government assets. A budget of this kind would mean that the federal government would be practicing what it preaches: it would be keeping the same kinds of books that it requires of its taxpayers. Consider, for example, the average American who wants to buy a house. If the family were required to pay the entire cost of the house when he purchased it, and was not allowed to run a deficit—that is, to borrow—to do so, there would be no way the family would be able to afford the house.

But under the circumstances—and from a practical point of view—I feel that H.R. 6591 is as far as we can go in the initial step, and I think it is the most important step. It is a step which is long overdue for government to take. It will give the Congress and the public a tool for more effective and better management of our nation's finances and economic policies.

Mr. Chairman, I urge this Task Force, in as strong terms as I can, to include among its recommendations the establishment of a federal capital budget along the lines suggested in H.R. 6591. Bill Clinger and I, along with our staffs, stand ready to assist you and your staffs better understand our initiative. We are anxious to work with you on this most important objective.

This brings me to the second issue I want to address this afternoon: the need for the federal government to adopt a two-year budgeting cycle. I believe that we have achieved great diseconomy through emphasis on an annual budget rather than a long-range capital investment approach. The current law provides a set of blinders which have led to somewhat haphazard, inefficient and wasteful decision-making. The chief merit of the capital budget is in taking off the blinders so as to permit a longer range look ahead.

The American public is ready and willing to look ahead more than one fiscal year. No one needs to remind them of the problems associated with the passage of a federal budget. For several years, final action on appropriation bills has been delayed well into the fiscal year. Much of government has been funded under continuing resolutions, leading to widespread uncertainty and inefficiencies. The credibility of Congress is certainly not enhanced by this failure to pass budget resolutions and appropriations on time.

Indeed, a strong case can be made that most federal programs would benefit from the stability associated with a longer budget cycle. A biennial budget would make it possible to improve program oversight and evaluation. Longer-range plans could be implemented without concern for disruptions caused by the inability of the Congress to enact annual appropriations in time. Programs with long lead time, such as highways, bridges, water lines and transit systems—the publicly supported facilities which form the basic foundation of our nation's economic system, can only be harmed by the uncertainty of annual funding. Enacting a 2-year budgeting cycle, certainly, would allow us to more rationally allocate our scarce federal funds during these times of severe economic and fiscal constraints.

This concludes my statement, Mr. Chairman. I apologize for its length and would be happy to answer any questions you might have.

Mr. BEILENSON. There is some support amongst members of the task force, as well as elsewhere, for the 2-year budget cycle.

Are there questions of Mr. Edgar? Mr. Regula?

Mr. REGULA. Thank you, Mr. Chairman.

Maybe you stated this while I was out, but on the 2-year cycle do you contemplate the budget in the first year of Congress and the oversight in the second, or would you have the second year of a Congress do the budget and then the following first year of the new Congress the oversight?

Mr. EDGAR. I think it makes much more sense to relate it to when the President takes office, and I think that the President coming into office ought to have the first year to look at what he has in fact been elected to oversee. Then in the second year of the Presidential term, the President would come before the Congress and put in place in that second year his budget plan.

Mr. REGULA. So you are really suggesting that a President would have in essence almost 21 months of a predecessor's budget?

Mr. EDGAR. I think so. I say that, and I think you have to analyze how that fits in, but for example David Stockman was in office for about 2 weeks before he was asked to take a look at some specific budget items in adjusting President Carter's budget in the first term, and if we can avoid that rush to judgment on some of those policy decisions, I think it is fair for the President and it is also fair for Congress to take some thoughtful look.

I don't know that it makes a great deal of sense to argue whether it is the first or second year of the 2-year term. Whichever year it is, it takes a considerable amount of time, as we found this year, and you back up the appropriations bills in those same 2 years.

I would go a step further and make the appropriations bills 2-year appropriations related to that budget. We could have an adjustment in the middle of the off-budget year if there were certain exceptions or priorities that had to be debated, but it would free up a lot more time in the legislative process to really thoughtfully look at the authorizing programs that are being shoved in the cracks.

We have the reauthorization of the Clean Air Act, the reauthorization of the Clean Water Act, the reauthorization of the Federal Aid to Transportation Act, we have authorization of omnibus water bills, just to name some of the bills that are in committees in which I am responsible.

My guess is that they get squeezed in around appropriations bills and the budget process, and there really hasn't been the kind of thoughtful and orderly process of scheduling.

That is basically where I want to go. I just think when a President takes office, it is very difficult for them to not only try to adjust the last President's budget, but also move quickly on a new budget in that first year.

Mr. **Regula**. Query on the concept of a capital budget. Are you thinking only in terms of the budget resolution? For example, let's take Interior appropriations. The amount we appropriated includes capital expenditures for land acquisition and perhaps the Forest Service would be allowed capitalization, seeding rows, and then of course a good chunk of it is operating.

Would you suggest in your plan or do you address that question of whether appropriations bills would be in fact split into two parts when they are acted upon?

Mr. **Edgar**. We don't address that in detail because we think it needs a little bit more study in terms of first doing a national facilities assessment of all of the facilities that we do have and what our 5-, 10- and 15-year plans are for each of those agencies in the area of capital budgeting.

It would seem logical to me that within the concept of a unified budget it would not hurt us to have separated out for at least understanding what our long-term capital investment needs are.

Let me give you two illustrations. When we build a new veterans hospital, we essentially pay cash for it over the first 2 or 3 years of the process. We take and put the principal of that veterans hospital into our debt, and we service that debt by just paying the interest off and nothing on the principal.

What we conceive of here is not just separating out a veterans hospital, not making the decision to build that hospital until we are sure we have a way of financing that hospital, both principal and interest, over the life expectancy of the hospital and having some idea that that hospital is going to be obsolete.

In Philadelphia we built a hospital in 1952. It is now 1982. It is 30 years old. It is obsolete. If you work real hard and get it squeezed into the budget, it becomes part of our national debt, but not necessarily part of our national investment, unless we pay off both the principal and interest before we have got to build it again.

We have the case of a water project that a Member of Congress is able to put in the budget and it ends up costing $3 billion. We may have put the initial authorization in the budget in the early forties. It comes out as a $3 billion expenditure in 1982. We will be carrying that principal for a long time, paying nothing on the interest.

We recognize that every State and every business would clearly not operate that way, and while it is important for us to have a unified budget for accounting purposes and for us to see, I think if we are going to even begin to address our rehabilitation, reconstruction, and renewal needs, and replace the aging infrastructure and facilities that we have as a nation, and stay strong, we are going to have to figure out ways not only to highlight what the cost of those expenditures is, but fund them over time.

I went and talked with the Wharton School of Economics in Philadelphia, and they indicated that a $1 trillion debt for the United States is not such a bad idea. What is bad about it is we never pay the principal and interest off, so that 20 years from now we could have a $2 trillion debt or investment in ourselves.

How many of us have been in meetings where people say why doesn't government act like a business or why doesn't government do what we do at home, where our income equals our expenditures.

Anybody who owns a home doesn't have their income equaling their expenditures, if they are paying cash for their home, but if they are paying on a mortgage for that house, they put in a certain amount each year to make sure that they care for that mortgage.

We think that there are ways fiscally in the United States where we can do that. If we decide to commit ourselves to a $3 billion water project, we knew that that is going to cost us something over the 20- or 30-year life expectancy of that project, and we are not going to be able to fund additional projects unless we are willing to weigh that cost or measure that cost.

I don't think we have that kind of measuring at this point. We measure in terms of who is the strongest politician and/or who is able to get approval or authorization of the projects. We don't look at the 5- or 10-year planning of those things.

Mr. Beilenson. Mr. Bonior?

Mr. Bonior. Good testimony, very thorough.

Mr. Beilenson. It would have been even more thorough if I hadn't interrupted him.

Mr. Bonior. Thorough enough.

Mr. Edgar. If I were you, I would have interrupted me long before you did.

Mr. Beilenson. We will dismiss you now. Thank you very much for coming.

Mr. Conyers, I believe you are next. We will hear from you, John.

STATEMENT OF HON. JOHN CONYERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN, ACCOMPANIED BY NAT WEINBERG

Mr. Conyers. Thank you, Mr. Chairman.

First of all, I commend the committee for undertaking this inquiry. I think you are all aware of the problems that we are having with the budget process and the need for some thoughtful consideration about how we can change it.

I have asked Nat Weinberg, whose ideas I have purloined rather liberally in the course of a lot of my work, to join me here. For 28 years he was chief economist of the United Automobile Workers and has worked as a consultant in a number of capacities around the Congress and around the country, as well.

The question that this hearing raises is what are we budgeting for? Where do we want to go with the budgeting process? Do the budgets we write enable us to get there with some reasonable facility?

As it now stands, I think it can be argued that our budgets, especially in the recent experiences of the new administration, have taken control of us and for the very limited purpose of bringing order which caused them to be developed in the first place. We now have a situation in which, in trying to attain fiscal responsibility, we end up avoiding the tough priority decisions, objectives, targets, and goals that should be addressing.

The basic failure of the whole budget process was stated incredibly poorly by myself a number of years ago. This was in 1977. This was put together without, as you can imagine, any anticipation of this hearing.

> The most serious shortcoming of the budget process has been the neglect of its priority-setting purpose. We have not done nearly enough to define and order priorities according to national needs or to anticipate and plan for future needs so that we may judge the desirability and effectiveness of existing programs.

The point that I am making is that this is not a new dilemma that we have been in. It is now deep into the crisis that requires the Rules Committee—and I commend all of your witnesses that have been noticed and others who will be submitting ideas to you—for recognizing that we are in a serious problem.

As I said then and say now, the problem isn't just the budget process per se. It is the absence of planning processes and prioritizing processes that would make Congress more accountable than it is now.

So, what has happened is that when you put together an overall budget, you are forced immediately from the outset, before authorization hearings, before appropriations hearings, before all of the field trips and witnesses that we listen to by the thousands, to make decisions without the benefit of structured alternatives and of any consideration of policy goals that relate to national social and economic needs.

Why? Well, because first of all we have a unified budget. It sounds administratively neat, but we include social security, which I think is an incredible mistake. Then to polish off the process in a negative way, we have added reconciliation, which for all practical purposes, if it doesn't put many of the authorizing committees out of business, it reduces them to pro forma committee-type operations.

I come to you with the notion that as long as budgets are written without goals and plans, we are budgeting in a vacuum. Even if we could cure the procedural problems that dog us about the budget, it still won't amount to much because we have not addressed ourselves—as I think we ought to—to the whole question of planning and prioritizing.

So, I am here to submit the case for that. It has been done by others with far more careful consideration.

The first was the chairman of this committee. Dick Bolling in 1975 introduced a bill that was called the balanced economic growth plan that provided that all Americans able and willing to work have the right to useful paid employment at fair rates and compensation.

The bill stated that it is the responsibility of the Federal Government to guarantee this right by developing and administering such policies and programs as may be needed to maintain genuine full employment. It also provided that the other goals, such as price stability and a favorable balance of payments, should be pursued without qualifying, limiting, compromising, or undermining the rights and guarantees established by this act.

Now, what Bolling did that has got to be underscored and why I bring Mr. Weinberg to the table with me is that in the prioritizing he named full employment as a major goal. I commend that to your attention. It was in fact the forerunner of the Humphrey-Hawkins Balanced Growth Act of 1978.

What we do and what I am recommending to you in terms of the Weinberg plan derives from his testimony and his experience not only as a labor economist, but when he served on the National Commission of Supplies and Shortages. At that time he advocated a planning system that would combine both planning and budgeting in the Government process.

The long and short of it—and I am going to stop now and ask him to take a few minutes to spell it out—is that we establish a planning commission.

In other words, I am arguing that as garbled as our process is, it does serve somebody's purpose. It is useful to some. Unfortunately, it is not useful to the ends that I or perhaps even you would want to support, but it is working out there for somebody. It is not working for most of the American people. It is not working for State and local government.

What Weinberg did—and it has so captured my imagination to lead me to bring it to you for your consideration here—is to propose a commission that would have representation on it of all segments of the American people. The commission would submit alternative national economic plans to the President and Congress.

What would make it singularly different from anything we have ever done before is that it would be subject to a direct infusion of the ideas or sentiments of the people in terms of what we ought to be doing.

I have to just say plainly on the record if we were to have this in this decade, at least half of the people that I know in this country would have said full employment ought to really be our first priority, inflation and high interest rates ought to probably be our second, and that we would then be trying to focus through the budgeting process an implementation of whatever the planning commission and the Congress and the President jointly agreed upon. The budgeting process for the first time would become enforcer and implementor of stated goals that we would then be measured by.

This, of course, doesn't happen.

Mr. CONYERS. I would like to have——

Mr. BEILENSON. There are a number of us up here and a number of us who are not here today who I think would agree very much with the point you are making. At the same time, you will have to forgive me, but I can't allow Mr. Weinberg to testify today. We specifically asked only Members of the House, and we specifically refused a number of other outside folks whose views I don't approve of as much as I do those of this gentleman here.

I simply can't allow him to testify while there are other Members who wish to testify. I am sure we will not finish our work this year unless we are called back into session in a couple of months.

We will be back working on this early next year, at which time Mr. Weinberg and others will be invited back. In the meantime we do have your statement which includes your ideas, I assume, and we will put that in the record. [See p. 54.]

Mr. CONYERS. Could I put in some supplemental material?

Mr. BEILENSON. Absolutely. Do forgive us. I think we have to run this hearing that way, John.

Mr. CONYERS. I have no problem with it at all.

Mr. BEILENSON. Speaking for myself, there is a lot in what you say which is extremely appealing. Whether or not we are going to be able to propose such a far-reaching kind of change I don't yet know, but I am extremely happy that you have brought it to our attention, and we will pursue it in one way or another with Mr. Weinberg and others, I hope, early next year, but I can't permit him to testify today.

Are there any questions of Mr. Conyers? Mr. Panetta.

Mr. PANETTA. Mr. Chairman. Thank you for testifying, John. Let me ask you a very basic question. Even if you have all of the planning and all the prioritizing that I guess we are all concerned with—I think we need additional time for that—doesn't it ultimately come down to whether you have the votes in this place to get the kind of priorities you are interested in having adopted?

You can create a commission or you can create anything else you want, but the fact is that this institution is supposed to represent the people, and if 435 aren't responsive to what their constituents are saying, then there is a November election every 2 years that can determine whether they have got the right priorities in mind or not. That is the nature of our process, and I am not sure a commission ought to replace that process, A. And B, in the end you still have a majority vote on the floor that determines what priorities are adopted.

For example, I am pretty sure that from the point of view of priorities you would support moving funds out of defense into programs that impact on people, and yet you can have all of the planning and prioritizing and all of the commissions you want, when it comes to a vote on the floor of the House, that priority may not be adopted, as it has not been adopted in vote after vote on a number of occasions, whether it is defense authorization bills or whether it is budget resolutions.

I guess my point is isn't there a political process that is involved here that you can change all of the budget process you want, you still have to fight that battle.

Mr. CONYERS. Exactly. You have given me the opportunity to explain that I am not trying to avoid the political process. I am trying to enhance it. The commission wouldn't substitute its judgment for the Congress or for the executive branch or for the fiscal systems, the Federal, and so forth.

What it would do is initially make the proposal. It would be perfectly conceivable that the Congress could throw the whole thing in the wastebasket and come up with something going in the other direction, as we often want to do, so it is indicative planning. It isn't mandatory planning. What they send back would be worth what all commissions that serve things up to us is worth. That is No. 1.

No. 2, you are absolutely right. The Congress will do whatever it wants to do in the end, which is precisely how things should be. But what we will have that we don't have now is the kind of national debate that clearly and simply focuses on which way we want to go.

This plan isn't written to say that our programs will all of a sudden become the dominant order of the day because we stuck a commission in front of the rest of the planning. What we will say is that the budgeting would be required to follow the debate that has led us to say these things are in this relative order and of such magnitude, the important things that we think ought to be developed, and so it would fix responsibility in a way that doesn't happen now.

And because you mentioned some of the immediate considerations, let me just show you how I think those are examples in behalf of what I am talking about.

Most people want to stop any additional nuclear technology and production in this country. The Congress doesn't believe that, that that is a wise course of action. I can go on and name you a lot of cases where what I think I perceive the national mood or interest to be is given exceedingly short shrift in the Congress. This won't cure it. There will probably always be some fairly big imbalances between what people want and what they get in Government.

This is probably the best system I have seen around anywhere, but it would take a very large step toward bringing in more accountability. With the indicative planning concept of Mr. Weinberg's that I would like to have incorporated in my testimony, we would go through a number of alternative plans.

We would go through conservative plans, liberal plans, democratic plans, the Steel Caucus and the Black Caucus plans, and anybody elses, but in the end, after we have debated the plans then we would vote and that would be the plan that the Congress has come up with, which the budget process would implement. We eliminate, obviously, what we are doing now, in which we make the planning only implicit in the budget determinations, and so it all goes by before most people in my district know what the hell happened, and then they keep coming to me and writing to me for the rest of the 2 years saying why don't you do something about social security, medicare-medicaid, et cetera. The truth of the matter is we have already set the parameters in cement, especially through reconciliation. That is it.

By law we have now stamped ourselves in.

Mr. **Weinberg**. I can't testify; can I supplement that?

Mr. **Beilenson**. I prefer that you not.

Mr. Conyers, we thank you very much. We will include in the record at this point your testimony.

Mr. **Conyers**. Thank you very much.

[Mr. Conyers' prepared statement follows:]

PREPARED STATEMENT OF HON. JOHN CONYERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

I appreciate the opportunity to testify before the Task Force on the Budget Process.

The Federal Budget's relationship to the social and economic needs of the nation is a paramount issue today. That issue, unfortunately, has become greatly distorted. In the past few years, the highly complex question of how the Congressional budget process can best serve the national interest has been transformed into the single-issue focus on a balanced budget. Many are preoccupied with the symbol of a balanced budget, as if that would lead us all into the promised land. In hard times, like the present, citizens are understandably searching for simple, easy, and quick solutions to their problems. The balanced budget panacea is ostensibly such a solution. It is not

POST-WAR NATIONAL PRODUCTION AND EMPLOYMENT BUDGET

Nearly forty years ago, in 1945, the nation also was preoccupied with budget matters. Some eleven million Americans in the armed forces were about to end their military service and return to civilian life. The President and Congress wrestled with the issue of finding jobs for those individuals. President Franklin D. Roosevelt had called upon the nation "to assure the full realization of the right to useful and remunerative employment . . . an adequate program must provide America with close to 60 million productive jobs."

Responding to that challenge, a group of Senators led by James E. Murray of Montana introduced on January 22, 1945 a full employment bill. The bill also sought to fashion a new federal budget process, the centerpiece of which was "the National Production and Employment Budget." Congress had a goal then. It was to create jobs for all Americans who wanted and were able to work, including the women and men returning from war.

The Murray bill proposed that Congress move beyond drawing up a financial blueprint for the federal government itself, and consider the larger context of the nation's balance sheet. The bill read: "The President shall transmit to Congress at the beginning of each regular session the National Production and Employment Budget . . . which shall set forth . . . (1) the estimated size of the labor force . . . (2) the estimated aggregate volume of investment and expenditure by private enterprises, consumers, State and local governments, and the Federal Government, required to produce such volume of the gross national product at the expected level of prices as will be necessary to provide employment opportunities for the labor force (at full employment)."

What were our predecessors up to? They were setting out to achieve an overriding national goal, relate federal budgeting to national needs, and make Congress accountable in its budgetary and economic policies for the performance of the economy in achieving the goal of full employment.

I think you would agree that their concept of a federal budget was radically different from the current one. As far as history goes, the Murray Full Employment Bill was considerably modified and transformed into the Employment Act of 1946. The full employment goal became "maximum feasible" employment. The National Production and Employment Budget concept was considerably diluted, and transformed into an analytical, rather than an operational, model, which has become known as the "full employment budget level."

HISTORICAL PARALLELS

The question is raised: the history you present is interesting, but what does it have to do with the current situation? Is there really any parallel between 1945 and the present-day? Are you recommending that Congress create a budget for the nation, and not just a financial plan for the federal government? Yes, I am.

Obviously, we are not demobilizing a massive army today although we certainly have in the streets, towns, and cities of the country an enormous "army" of the unemployed. Yet in the present-day, we are not moved by an overwhelming sense of national purpose and cohesion, that existed in 1945. On the contrary, the history of the last few decades has been marked by falling, not rising, expectations about government's ability to improve the quality of life. Today citizens are disillusioned. They are supremely skeptical about the effectiveness and worthiness of the institution of government itself. In this regard, things have changed dramatically.

Yet I can think of a number of parallel concerns currently and in 1945. To list just a few. How can we incorporate millions of Americans into the workforce, who are now either unemployed, underemployed, or too discouraged to look for work? How can we utilize our full resources—labor, machinery, technology, and knowledge—and put them to work to improve our standard of living? In this regard, CBO in its most recent publication, The Economic and Budget Outlook, September, 1982, warns: "The U.S. economy is currently operating at the highest level of unused resources in postwar history." What can be done about what Newsweek described in its August 2, 1982 cover story as, "The Decaying of America"—the dilapidated public infrastructure of roads, bridges, sewage systems, and schools, the rebuilding cost of which can run as high as $3 trillion? Finally, what is Congress doing about the statutory goals of full employment, 26 million new homes, or the elimination of poverty, that have been mandates in a variety of public laws over the years, but which are discarded as soon as the ink dries on presidential pens?

BUDGET PROCESS SHORTCOMINGS

There are a number of ways to view the shortcomings of the Congressional budget process. Some may argue that the process has failed to operate in a timely fashion. Others, that the process has not provided Congress enough control over federal spending. Or that the budget process does not allow for a long-term perspective on budgeting needs. There is the very real concern about reconciliation, which in its operation last year led to the most muddied and unintelligible budget resolution of any that I have witnessed. There is also the question of runaway tax expenditures, many of which no longer serve the public purposes for which they were designed.

I am not here to speak to these issues, important though they are. Rather, I want to deal with what I consider a more fundamental problem: the failure of the budget process to permit Congress to examine national needs and priorities, set national social and economic goals, and take actions that respond to the needs of citizens. In 1977 I testified on the relatively new budget process and observed then:

The most serious shortcoming of the budget process has been the neglect of its priority-setting purpose. We have not done nearly enough to define and order priorities according to national needs; or to anticipate and plan for future needs so that we may judge the desirability and effectiveness of existing programs. . . . Obviously, there will always be several priorities reflected in the budget. But unless we focus on concrete goals and targets, we will not be in a position to determine what has to be traded off, sacrificed, and how the several priorities are related to one another.

The most serious shortcoming remains the absence of any focused budget debate on social and economic goals, and the policies and programs to achieve those goals. Each year we set about writing a budget for the federal government. What relation does this budget bear to the budget needs of the entire nation? How do our budget decisions affect national needs for full employment and production?

ECONOMIC CRISIS

Today we are discussing budget reform in the context of a deepening and spreading economic crisis. It has been festering for years. The crisis is not just a matter of cyclical ups and downs, but of long-term industrial and economic decline. The economy may perk up now and then, and yet remain chronically stagnant. The cumulative impact of this long-standing economic distress is staggering.

How will budget decisions affect the nation's economic crisis? And the goal of reducing unemployment, that all of us, I am sure, support? What is the connection between budgeting and the goal of halting business failures, or forestalling farm foreclosures? What is our goal for pumping new life into the housing industry, in which housing starts, I understand, are at the lowest level since 1946? What is our goal for rebuilding the auto industry, which in my city and State is devastated? What is our goal for raising industrial production, which now stands at one of the lowest levels since the post-war period? What are we doing about rebuilding the nation's infrastructure, or stabilizing the fiscal condition of State and local governments? Is the budget process, as presently constituted, addressing these concerns and goals? If not, why not?

TWO UNWORKABLE BUDGET STRATEGIES

In the past few years the budget process has shifted back and forth between two Administration strategies—the supply-side strategy of cutting taxes, raising defense spending, and cutting domestic spending; and the balanced-budget strategy of focusing on deficits, cutting spending, and winning support for a constitutional amendment to balance the federal budget.

Does anyone in this room really believe that either strategy can deal with the enormous economic problems in the nation? Does anyone believe that if the Federal budget were balanced, unemployment would be significantly lower and economic activity significantly greater? Who really believes that the private sector on its own is strong enough to lead us into a real recovery, even over the challenges of the Japanese and the Europeans who are outproducing and outselling us in major and multiplying markets?

I do not believe that either budget approach can arrest the secular economic decline, the uncontrolled business cycles, or the persistent stagnation that has plagued the economy for years. If we were to balance the federal budget today, we would be further diminishing the nation's balance sheet of jobs, income, and production. A study of the 1974-75 recession shows that, under a balanced budget, the jobless rate then would have been 12 percent rather than 8.5 percent, and real GNP would have plunged by 12 percent rather than by 2.5 percent, as actually happened. Other studies of the impact of a balanced budget on current conditions confirm this finding.

The balanced budget notion is attractive because citizens have become convinced that budget deficits are the major source of the economy's problems. Who can blame them for seizing upon this simplistic idea when their President has denounced for years the federal government as the number one source of the nation's ills and budget deficits as the number one issue (except for his occasional forays into supply-side economics)? Who can blame citizens for adopting this simple formula when they look around them at an economy in ruins? Why shouldn't citizens take opposition to political institutions that helped create the mess they are in and that have proved to be so unresponsive to their needs for jobs, income and services, and liveable communities?

UNMET NATIONAL NEEDS

The waste in human lives and in the nation's resources, that has gone on for so long and will probably continue for years to come, is, in my view, the most shameful and intolerable part of the American experience. The unmet needs of citizens and of communities ought to be the first concern among those who seek ways to improve the budget process.

The 1945 concept of a national budget may not be exactly what is called for today, yet surely the concept behind it is sound. Is not this concept, after all, what we mean by assessing the general well-being? Is not the goal of improving the general well-being the principal function of government?

I would like my colleagues, particularly my Republican colleagues, to consider President Lincoln's view of the purpose of government in the present-day context. Lincoln said:

"It is the function of the Government to do for the people only what they need to have done and cannot do for themselves, or cannot do so well, in their separate and individual capacities."

I suggest my colleagues review, if they have not already, an article that appeared in the business section of the Washington Post on September 5, 1982 entitled, "Summer of '82: A Journal of Distress: Across the Land, Recession Takes Toll." Can Americans today, who are the victims of unemployment, shut-down factories, bankrupt businesses, tight money, or no money at all, really pull themselves up by their own bootstraps? That article describes this reality: mainstreets of small towns in which most of the shops are boarded up . . . families, roaming nomadically from one town to another, camping out on riverbeds or in public parks, unable to find work . . . individuals who scavenge for food or things of value . . . children separated from their fathers so that they can obtain public assistance . . . disillusion and despair in so many places, in the sunbelt as well as the frostbelt.

These Americans—millions of them—"cannot do for themselves" "what they need to have done." Nor can corporations do it for them, or State and local governments, or voluntary organizations. The jobs, income, production, security, and sense of well-being that is desperately needed cannot be provided in any decent interval of time without a national, federal effort and a national, federal plan.

Local communities across the country lack the capability to maintain and rebuild their physical facilities, according to a 1981 study entitled, "America in Ruins: Beyond the Public Works Pork Barrel," published by The Council of State Planning Agencies. The authors warn that the task of rebuilding the nation's public infrastructure is of such magnitude that nothing short of a national effort can succeed. The study reports the following:

8,000 miles (20 percent) of the nation's 40,500-mile interstate highway system are now beyond their service life and must be rebuilt; repairs will cost some $33 billion over this decade.

45 percent of the 248,500 bridges in the country are structurally deficient or obsolete; 20 percent require immediate attention; the cost, according to a D.O.T. study, can run as high as $48 billion.

$4.3 billion spent now on repairing highways and bridges could save 480,000 injuries and over 17,000 lives, according to the Federal Highway Administration.

One-half of Conrail's rails and roadbeds are decayed.

756 major urban areas will have to spend some $110 billion over the next 20 years to maintain their water and sewage systems, and just meeting pollution-control standards in the next 5 years will cost $25 billion.

One-third of the 9,000 dams in highly populated areas of the country are unsafe, and 130 are in a state of collapse, according to the Army Corps of Engineers.

In Berwyn, Illinois 1 million gallons of tap water each day disappear through leaks beneath the streets, and in Milwaukee in January of 1982 alone, 170 water-main breaks occurred; similar cases exist in many places.

Countless public buildings, including schools, museums, fire stations, prisons, as well as municipal buildings are badly deteriorated, and local governments lack the funds for capital improvements.

The Council's study estimates that repairing and rebuilding these structures, that exist in rural areas as well as large cities, will cost $3 trillion and more. Yet expenditures on public works as a percent of GNP have declined substantially over the past decade. Who is dealing with the failing infrastructure, the economic effects of which are enormous? Is Congress doing so in a timely, coherent, and farsighted fashion? Who is attending to the public capital deficit in the nation?

THE GNP GAP

There are numerous measures of the waste and deterioration in human and economic resources. One is the unemployment rate; another, the rate of underutilization of industrial capacity. A more comprehensive measure is the discrepancy in output and employment between the current economy and the potential GNP at roughly full-employment levels.

The Council of Economic Advisors in 1980 created a model for estimating the GNP gap. It has been used until recently by the White House; the Budget Committees and CBO still make use of it for analysis. The model assumes a 3 percent annual rate of growth and a 5 percent unemployment rate. The baseline high employment year for the model is 1979, when the jobless rate was 5.8 percent. Every 1 percent increase in unemployment is equivalent to a 2.5 percent decline in the rate of GNP growth (or conversely, every 1 percent increase in the workforce represents a 2.5 percent increase in GNP). The House Budget Committee recently calculated that potential GNP for fiscal year 1982 would amount to $3,282.5 billion (on a unified budget basis). The current GNP, last reported for the 2nd quarter of 1982 was, however, $3,041 billion, or $241 billion less than it would have been at a high-employment level. The stagnant economy constitutes a loss of at least $241 billion this year in unused labor and productive capacity.

At this level of potential GNP, it is estimated further that federal receipts would amount to $690 billion (as opposed to the current estimate of $622), federal outlays, $716 billion (as opposed to the current estimate of $733), and the federal deficit would stand at $25 billion, rather than the current estimate of $112 billion. With lower unemployment and more vigorous economic growth, federal tax receipts would be higher, outlays for social insurance and income maintenance lower, and the deficit considerably smaller. The largest part of the federal deficit is a direct result of the deep and prolonged recession.

Which deficits should Congress be concerned about? The budget deficit of $112 billion or more? The deficit of $241 billion that represents lost GNP? The $3 trillion deficit in the nation's decaying infrastructure? Or the relatively manageable $25 billion deficit that would exist if we only had the wisdom and the will to set a full-employment goal and rebuild the economy in a rational and comprehensive manner?

BUDGETING AND GOAL-SETTING

The Congressional budget process should be transformed into one that directly and explicitly links budgeting with the achievement of national social and economic goals. The federal budget should become the blueprint for the implementation of such goals and an instrument for bringing coherence to social and economic policy.

The budget process currently bears only a minimal connection with national economic goals. Budgets are, of course, drawn up with various assumptions about the economy, the anticipated impact of economic change on federal policy and the impact of policies on the economy. Forecasts are furnished rather assiduously by the Congressional Budget Office.

The budget process, however, does not provide for national goal-setting (except perhaps with the exception of defense spending). It bears little relationship either to statutory goals such as full employment, or less formalized goals that the great majority of citizens espouse. The budget process simply fails to provide a framework for interrelating the various goals, relating policies to goals or, for that matter, interrelating the various part of the economy to one another and the whole. As a result, policy making, for the most part, is ad hoc, fragmentary, improvised, and reactive. Lacking a goal-setting capability, Congress also lacks standards for evaluating policy implementation and performance. Without explicit goal-setting and a policy planning framework integrated with budgets, the budget process cannot be made accountable for what happens to the economy.

Let me illustrate what I mean by goal-setting by reference to full-employment policy. The 1978 Full Employment and Balanced Growth Act called for the reduction in the nation's unemployment rate to 4 percent by the end of 1983. These interim goals, however, were ignored or suspended altogether by the past two Administrations. Earlier this year, the Reagan Administration projected a jobless rate of nearly 8 percent by the end of next year. The 4 percent goal has been discarded. It is especially easy to ignore it since this statutory goal, like so many others, is not implementable or enforceable through the budget process.

If indeed, Congress were to take seriously the full-employment goal, it would be doing things very differently in its budgetary procedures. Congress would, in fact, be drafting some form of a National Production and Employment Budget, as our predecessors envisaged nearly 40 years ago. The federal budget would incorporate estimates of aggregate spending by business, consumers, State and local governments, and the Federal Government, that would produce the rate of growth and volume of gross national product necessary to sustain full employment. Creating jobs would no longer be the hit-or-miss consequence of economic changes or economic policies. Instead, it would be the priority goal around which policies and programs are fashioned. The budget process would become the instrument for working toward national goals.

If budgeting were linked to goals, Congress then would have a rational basis for determining the kinds of policies that are needed to achieve the goals. For example, with regard to public investment in job creation, Congress would be able to determine the job-creation potential of various investment policies. We know, for example, that the job-creating potential per dollar of investment differs across sectors and industries. Employment Research Associates of Lansing, Michigan has undertaken a major analysis of job creation and found that whereas $1 billion of public investment in health care would generate nearly 50,000 jobs, $1 billion spent on military procurement is likely to generate about 14,000 jobs, less than one-third fewer jobs.

CBO has developed models for estimating the job-creating potential of a variety of fiscal policies. One of its earliest studies in this area—a landmark effort—was CBO's 1975 publication, "Temporary Measures to Stimulate Employment: An evaluation of Some Alternatives." That study found that public service employment programs resulted in far more jobs per dollar of investment than alternatives such as revenue-sharing grants to State and local governments, tax cuts, or stepped up federal procurement.

Similarly, if congress were serious about reinvesting in the nation's infrastructure, it would adopt a national capital budget. The capital budget covering investment programs would be separated from a current services budget. A capital budget would provide estimates of current and projected capital needs and expenditures; current and projected needs and expenditures for operation and maintenance; and an overview of sources of financing.

If Congress were to inventory the public capital needs of rebuilding the nation's infrastructure or, for that matter, inventory the needs of citizens for housing, education, health care and transportation, I believe we would readily discover fertile areas for employing millions of unemployed persons in productive work.

PLANNING AND BUDGETING

I recommend that the Congressional budget process should be part of a framework for long-range, comprehensive, and democratically-based national and local economic planning. Other industrial democracies have done this successfully. While I have few illusions that Congress is ready to move in this direction, recent economic experience should, at least, dispose us to consider the prospect seriously. I am not sure of the precise, final form that budgeting for national needs would take. We have a variety of excellent models to draw upon, including the National Production and Employment Budget.

In June I introduced The National Investment Act (H.R. 6623) to create a national recovery and investment board that would provide Congress with alternative plans for economic recovery. Along with a number of economists and citizen groups, I am working on a new full employment bill that incorporates strategies for full employment, reindustrialization, and modernizing our public infrastructure.

The Congressional budget process can be improved substantially by requiring budget resolutions to specify short-run, intermediate, and long-term goals for the nation. Budget resolution could incorporate numerical goals for employment, production, investment, purchasing power and money supply, as well as the existing revenue and spending goals.

Congress can go further and create a national planning capability and national economic plans that would be directly linked to budget resolutions. The best proposal of this kind that I have seen is one advanced by Mr. Nat Weinberg, the former chief economist of the United Auto Workers, that was presented to the National Commission on Supplies and Shortages in December, 1976, on which he served. The details of Mr. Weinberg's proposal can be further examined in a Commission publication entitled, "Additional Views of Commissioner Weinberg on Indicative Planning." [See p. 132.] I shall briefly summarize the proposal.

An independent federal commission, composed of public members as well as representatives of all major sectors, would be responsible for recommending to the President and Congress a national economic plan, or alternative plans. The Commission's plans could be modified or entirely reshaped by the President and Congress. The plan would stipulate both short-term as well as long-term goals, including programs of federal action to implement them, and forecasts of the likely effects of such plans on the regions of the country, the various economic sectors and industries, and on State and local governments. The Joint Economic Committee, in consultation with the budget and legislative committees, would adopt or modify one of the alternatives or else develop its own plan.

CBO would be expanded into the Congressional Planning and Budget Office and, along with a new unified statistics center, would work closely with the Committee. Congress would then approve two concurrent resolutions on the plan to be followed by action on the budget resolutions on the plan to be followed by action on the budget resolutions, which would be the instruments for implementing the plan. The budget resolutions would be required to be consistent with the goals of the plan. Adjustments would be made in the plans as they are currently made in the budget resolutions. The Commission would be responsible for monitoring compliance with the plan and report on such to the President and Congress.

RELEVANCE OF THE BUDGET PROCESS

The Congressional budget process—and the budgets we generate—are in danger of becoming irrelevant to the economic activities and needs of the nation. While Congress debates the rather limited issued of federal spending, the larger context of the future of the economy and the visiion needed for solving the economy's problems is lost sight of. While Congress is preoccupied with the issue of controlling its own budget, the far more important matter of the nation's balance sheet goes unheeded. I ask that the Task Force consider the proposals I have made, and I appreciate this opportunity to testify.

Mr. **Beilenson**. Mr. Hance.

STATEMENT OF HON. KENT HANCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. **Hance**. I will summarize. Most of the people would be better served in this country if we had a 2-year budget cycle. Also I believe that we should replace the current 13 appropriation bills with a single omnibus appropriation bill. We almost do that now with continuing resolution all the time.

Third, require a single binding budget resolution with a reconciliation bill to follow within 60 days.

The fourth thing that I mention would be very controversial, but it would require a two-thirds rolecall vote for revisions of the budget resolution. This would pretty well lock in your first budget resolution.

The other thing, the last thing is to set January 1 of even numbered years as the start of each fiscal period. The most amazing thing about my testimony is that that is it.

[Mr. Hance's prepared statement follows:]

PREPARED STATEMENT OF HON. KENT HANCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Thank you, Mr. Chairman. My comments today will be clear and concise, much unlike the Federal Budget process we are discussing here today.

Since Congress adopted the 1974 Budget Act, we have consistently failed to meet the deadlines for action as set forth under that Act. Last year, for example, Congress passed a revised second budget resolution for fiscal 1981, a first budget resolution for fiscal 1982, a budget reconciliation bill, numerous appropriation bills, two continuing resolutions, a second budget resolution, and a supplemental appropriation bill. Today, in fact, is our deadline for, quote, Complete Action, close quote, on the Second Budget Resolution for fiscal year 1983.

Obviously, our intent was admirable back in 1974, but our action has fallen far short of expectation. Instead of creating an orderly, streamlined mechanism for dealing with our budgetary responsibilities, we have given birth to an ill-conceived and ill-mannered process that curtails our effectiveness and damages our credibility as a ruling body.

Critizing the budget process is easy for all of us. This Task Force is to be commended for searching out possible solutions to our budgetary process, and, in that vein, I offer the following suggestions:

First, I believe the citizens of this country would be better served if Congress would adopt a two-year budget cycle.

Second, let's replace the current 13 appropriations bills with a single omnibus appropriatons bill;

Third, require a single binding budget resolution with a reconciliation bill to follow within 60 days;

Fourth, require a two-third roll-call vote for revisions to a budget resolution;

And, finally, set January 1 of even-numbered years as the start of each fiscal period.

The time-savings involved in the legislative process with such a budget procedure are self evident. By setting the fiscal course of the nation in two-year increments, we might have time to consider such back-logged bilss as Regulatory Reform, Immigration, a Balanced Budget Amendment, revisions to the Criminal Code, and many other such items that have to take a back seat to our annual bickering over the budget.

And by requiring the President to submit to Congress a two-year budget plan, we just might give the Administration time to formulate a workable foreign policy, do some much-needed mending with our friends around the world, and take a hard look at the domestic issues facing our country such as disgraceful unemployment, crucial industries being gutted by foreign competitors, and an agriculture policy that is making the family farmer an endangered species. Who knows? Without the need for an annual budget battle, the administration may even come to grips with a workable energy policy for this country and face the many environmental issues that seem to take a back seat much to the forced chagrin of the Administration and some members of Congress.

I thank the Task Force for giving me the opportunity to express my views and would hope that my distinguished colleagues would seriously consider the need for a two-year budget cycle.

Thank you.

Mr. BEILENSON. That is very nice.

Mr. HANCE. I have been on the other side so much.

One thing I would mention on that last part about setting up even numbered years at the start of each fiscal year, like in 1979 you would have drafted the budget resolution for 1980 and 1981, so a new President would be coming in in January of 1981, he would be operating under someone else's budget until the next January, almost 11 months, but I think that is important for him to learn the process.

Mr. BEILENSON. The two-thirds vote would be required for revisions to the budget resolution only?

Mr. HANCE. Right.

Mr. BEILENSON. Mr. Regula.

Mr. Regula. A question on the omnibus appropriation. Are you suggesting that instead of 13 subcommittees that there be just 1 committee called Appropriations and all hearings be in the 1 committee, or are you suggesting that you take the 13 bills that presently come out of the subcommittees and put them into 1 omnibus bill for purposes of floor action?

Mr. Hance. I would think one committee, Appropriations Committee.

Mr. Regula. I think it would be a most difficult task, because just sitting on 2 subcommittees out of 13 myself, we spend days and days and days exploring, because it is the various programs that we are called on to fund, and I don't know whether you would have enough time for just one committee to cover, in effect, about $500 billion worth of expenditures and do it adequately.

Mr. Hance. Of course one thing that you could do, each committee could make their recommendations.

Mr. Regula. Yes.

Mr. Hance. And you would, in a sense, be setting priorities when you made those recommendations. I think one of the things that has happened that I have seen in Congress, you have got so many cooks. You know too many cooks spoil the broth, and it is going to be extremely difficult to get anyone to give up power or what they might conceive as power, if not impossible. But if we are going to talk about utopia, I thought I wanted to throw that in.

I would like to see an appropriations committee that really had the power, and they would be making decisions on the appropriations bill in accordance with what the budget had laid out. You would have a very powerful Budget Committee, a very powerful Appropriation Committee, and a lot of people would be jealous, but it would give them some other things to do. I think that it is a way to solve some problems.

Mr. Beilenson. Mr. Panetta.

Mr. Panetta. Would you do that with the Ways and Means Committee?

Mr. Hance. I did not go that far. I think tax writing certainly would stay with Ways and Means Committee, and the effect of it would be you would have a sense of the power in three areas, but you do to a certain extent now.

Mr. Panetta. Would Rules be of any importance?

Mr. Hance. It would all have to come back to Rules, Mr. Chairman.

Mr. Panetta. That is not too bad an idea.

Mr. Hance. We would not want to overlook the most powerful group.

Mr. Beilenson. Are there any other questions of Mr. Hance?

We thank you very much, both for your testimony and for the fact that it was brief and to the point.

Mr. Hance. Thank you.

Mr. Beilenson. To my two colleagues who are here, Mr. Nelson is going to come up from the floor to give us his statement. He may be the only other member coming up today, so if we can wait for a moment or two, he may be back.

I would like to thank Mr. Regula and Mr. Panetta, among others, for being so kind as to spend a good portion of the day here.

Mr. **Beilenson**. Mr. Nelson, we would be delighted to hear from you. Thank you for coming back.

STATEMENT OF HON. BILL NELSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. **Nelson**. Thank you, Mr. Chairman. If I may submit for the record our printed copy.

Mr. **Beilenson**. Without objection, the gentleman's entire statement will be made a part of the record. You may proceed however you wish.

Mr. **Nelson**. I would just add some comments off the cuff. I would like to echo what Chairman Giaimo shared with us yesterday in a House Budget Committee hearing. His concern was that if we opened up the Budget Act of 1974 for amendment, that there might be an overreaction, an excess that might be done.

I think it is clearly in the interest of the congressional budget process, in the attempts to grope toward cleaning up our fiscal house that we keep the 1974 Budget Act in place. That is my first point.

I think that, indeed, the Budget Act has given us a means to direct our spending priorities. I think that it has given us a means by which we control our spending.

The Budget Act has given us a means by which we could understand our spending, compared to the way we appropriated funds prior to the time that a Budget Act was in place.

We have heard criticism of the Budget Act involving questions of turf, and I would urge the task force to recognize this. We ought to separate and understand the differences between turf considerations and more substantive arguments.

Simply put, you must have a mechanism, in my judgment, by which you get an overall picture of the fiscal needs of the country. Having adopted that mechanism in the form of a budget, then the Congress must discipline itself to stay within those particular goals set by the budget.

I would like to mention a few more items. No. 1, I think we ought to make some changes that would bring about a common set of economic assumptions instead of each group, such as OMB operating on one set of figures and maybe the Senate and the House each operating on different sets of figures.

Mr. **Beilenson**. That is a point which has been made by a number of people. I understand it is achievable.

Mr. **Nelson**. No. 2, I would say that reconciliation ought to be put in concrete in the first budget resolution.

Mr. **Beilenson**. I think there is general assent to that point too, if I am not overstating it. The third is a little new to me at least.

Mr. **Nelson**. No. 3, I would say that the Congress ought to have direct access to data from agencies rather than having it processed through OMB. There is a problem of the bias of figures that come to the Budget Committees from the agencies through OMB.

Now, if we could go back and adopt No. 1, which is the common economic assumptions, that would help this recommendation. We on the House Budget Committee have run into the situation where one set of figures comes from OMB and another set from CBO.

Aside from economic assumptions we need to know the specific program needs of this or that agency.

I was on the Appropriation Committee back in the Florida Legislature, and many times I would just wander into an agency of state government and I would go poking around myself and start asking the questions directly. I don't see why the Congress in any way should be limited with regard to getting primary data from agencies instead of it being filtered through OMB.

Mr. **Beilenson**. I agree entirely. I have had similar appropriation experience back in California, and I assume that our Appropriations Committee does that. I would assume our Budget Committee ought to have access to that same kind of information, but I don't know the answer to that.

Mr. **Nelson**. No. 4, Mr. Chairman, the multiyear planning is the only reasonable approach for us to take, since we are looking at the resurrection of the economy to be accomplished not over 1 year but over several years.

No. 5——

Mr. **Beilenson**. It really is part of that. It gives you an opportunity to do No. 5.

Mr. **Nelson**. Precisely. The credit budgets—you know I really don't have a comprehension of the Federal Financing Bank. There is an awful lot of obligation of the Federal Government through those kinds of financing programs that is ultimately costing the Federal Government a lot each year.

Mr. Chairman, in conclusion I want to talk about a pending balanced budget constitutional amendment. I would suggest that if indeed the Congress is going to come with an alternative to a constitutional amendment in the form of a statutory approach, that you might want to consider an idea that I filed 3 years ago which was suggested to us by Rudy Penner of the American Enterprise Institute, and it basically is an interesting approach. It says that in the year after Federal outlays exceed the Federal receipts, that you would require that the amount of public debt incurred by the Federal Government in that particular year remain constant. In other words, the publicly held debt could not increase.

Now, what is the difference in a deficit in a year? You say isn't that all publicly held debt? Doesn't the Government float bonds and people buy these bonds and therefore the Government, in going out and borrowing, gets use of public money by floating these bonds? But there is another part to debt, and that is that some Government agencies sell debt to other Government agencies.

For example, if the civil service retirement fund or the social security trust fund have a surplus, by law they are required to invest that surplus in Government instruments. That actually becomes a part of the overall Government debt. What I am saying is that in my approach, a statutory approach, I would separate out the publicly held debt from the total governmental debt. The requirement that public debt be held constant in the year following a Government deficit might be a more logical approach than trying to go about getting a certain percent of GNP and bringing it down to that.

It would be a true way in which you can define how to balance a budget, and prohibit the very thing that we are concerned about, and that is the increased borrowing by the Federal Government from the public, which adds to the total national debt.

[Mr. Nelson's prepared statement follows:]

Prepared Statement of Hon. Bill Nelson, a Representative in Congress From the State of Florida

IMPROVING THE BUDGET PROCESS

I want to thank the Chairman and this Task Force for having the foresight to hold these timely hearings to examine the budget process.

We must be cautious in moving for any radical changes. The budget process itself is not all bad. For the most part, it is working. There is no question that—while there are obviously problems with the current system—we can never go back to the way it was before the Budget Act of 1974. We cannot again allow the Congress to budget in the fragmented way that it did before the existence of the Budget Committees.

The public had the right to call the Congress the "big spenders." The truth is that we never really knew just how much we were spending. No single committee or even members of the leadership really knew the total spending each year. Each committee had an idea of how much it was responsible for spending, but no one knew how much was spent overall. It was impossible to seet priorities. Some priorities could be set at the committee level—maybe. However, if a committee had no real spending limit, as is now imposed by the Budget Committee, there was less incentive to cut out less efficient programs. There was no feeling of limited resources. To set priorities across committees, such as between defense and social spending, was unheard of.

Although some criticism of the budget process is justified, the budget process has been the whipping boy for a lot of unfair criticism as well. Undoubtedly, there can be improvements, but we cannot go back to the "good old days." The process is dynamic with boosts provided along the way by major landmarks, such as the implementation of the unified budget and the enactment of the Budget Act of 1974.

Within the framework that is now in place, I would like to suggest some refinements and improvements. Most of these are not new, but this is the optimum forum for bringing these ideas to the forefront for discussion and resolution.

1. Require the Administration, the House, and the Senate to agree on a common set of economic assumptions, similar to the baseline agreed to by the "Gang of 17" this year.

As we all know, small shifts in economic assumptions can cause wide variations in the budget totals. While we may painfully extract $1 million or $2 million from a popular program, a small change in the unemployment rate or the CPI can change the totals by billions of dollars. If there is no agreement in the assumptions, comparisons for particular programs are immaterial—like comparing apples to oranges. Unless all the players—the Administration, the House, and the Senate—all agree to the ground rules, no one wins. The American people will be right when they accuse us of playing a budget shell game. Since we have only used this common baseline once, we may want to refine and improve the process before we use it further. The concept is a sound one, however.

2. If reconciliation is to be included in the budget resolution, include it as part of the First Budget Resolution, rather than the Second Budget Resolution.

Much of the recent criticism of the process has been centered around the reconciliation process. This process is not all bad. It allows us to handle unpleasant legislation relatively painlessly. Although the reconciliation has most often been attached to the First Resolution, the Budget Act specifically requires it not to go into effect until the Second Resolution. It is where included in the First Resolution—at those times when Reconciliation is necessary—the committees involved would be given the time to have an orderly legislative process of hearings and mark-up. This is an instance of where the practical application of the Act has shifted with usage. We ought to make the changes to the Act to accommodate this more effective and practical use of reconciliation.

3. Allow the Congress to have direct access to data from the agencies rather than to have it processed through the Office of Management and Budget.

As the Budget Committees and the Congressional Budget Office have become more sophisticated, it would seem reasonable to me that the agencies might submit their original budget data to the Congress as well as to OMB. I am concerned that, by the time that we get the information from OMB and it has gone through the machinations at OMB, the priorities of the Administration have biased the data.

When the budget process was first initiated, I agree that it was wise to concede the lead to OMB on this. With the increased knowledge and sophistication of the Congress, I don't think that this is true any longer. If such a change is made, obviously, care would have to be made that duplication is minimized; our committee staffs are able to handle the increased responsibility; and the most useful forms of the data are requested. The uses of primary, rather than secondary sources of data, may be necessary to enable us to make more informed decisions in the future.

4. Long-term or multi-year planning is the only sane approach for us to take if we are to further restrain federal spending.

Budgeting one year at a time, as if there is no tomorrow, cannot be done any longer. This year, we examined the President's budget proposal and discovered, to our horror, that not only were deficits too high, they were increasing! Obviously, there are many pitfalls in obtaining reliable data for the outyears and for setting policy without knowing the economic conditions in the future. Agencies are not likely to take their estimates seriously because they can always come back later and correct mistakes. Congress has a similar mindset—take care of today, we can fix tomorrow later. With the cooperation of the many committees and the leadership, the multi-year budget could allow for long-range planning with changes in programs phased in or out, rather than abruptly changed as we respond to a crisis. We have come to the realization in recent years that we are operating with limited resources. By planning ahead, we can also target sectors of the economy that we might want to stimulate or to protect. We can more effectively set priorities within our limited resources.

If long-range planning were implemented, programs with big problems—such as social security—would not have to be handled with quick and dirty solutions which hurt people the worst, since the changes are so abrupt. Because of my fear for the effect of upcoming politics on the social security system in particular, I have cosponsored legislation which would transfer the social security program outside of the unified budget. Hopefully, this would depoliticize the program and would allow the Congress to rationally look at what needs to be done to restore the integrity of the program. Then, any chnages that are necessary would be done to improve the health of the program and not to balance the budget.

5. Conduct more thorough oversight of the many credit programs of the Federal Government.

I am going to defer to my good friend and fellow colleague Congressman Norman Mineta, who testified on this earlier today. Norm is an expert in this field and I am a cosponsor of his bill that would limit the growth of federal credit programs. I have been concerned about the astonishing growth of the federal loan programs—particularly in the last 7 or 8 years. There is no way that we can control federal spending when government credit is replacing that of the private sector.

In a slightly different vein, I would like to tie a discussion of the pending balanced budget proposals into this discussion of the budget process, since there is no doubt that these impact on each other.

I have introduced legislation during the last two congresses that I feel is a rational approach to balancing the federal budget. I will not claim all of the credit, since the original concept came from Rudy Penner of the American Enterprise Institute. However, since the bill has been actually introduced by me, I will not hold Rudy responsible for any criticism.

I think that a balanced budget by statute has several advantages. First, it can be implemented quickly, rather than the seven years possible for a constitutional amendment. Second, it can be offered as a prelude to a constitutional amendment in order to iron out potential problems before a less flexible constitutional amendment is ratified. My bill, HR 6614, has been referrred to the House Ways and Means Committee and would freeze debt held by the general public any year following one that the federal outlays exceed federal revenues. I took this approach because I did not want to cripple monetary policy or to eliminate agency investing of surpluses as required by law in government securities.

The Federal government borrows from two principal sources. First, it sells debt to the public—largely to finance the Federal deficit. Second, it sells debt to Government agencies that accumulate surpluses in separate funds, primarily trust funds. For example, the Civil Service Retirement Fund and the Social Security Trust Fund are required by law to invest their surpluses in government securities. These two trust funds account for 90 percent of all the Federal debt held by the agencies.

Federal Reserve purchases of debt are undertaken to carry out monetary policy, not to earn income. Their purchases affect the economy by expanding bank reserves and money supply. Thus, they have a markedly different motivation and effect on financial markets than do purchases by other sectors of the public. Almost all interest received by the Federal Reserve is returned to the Treasury as receipts so that the net cost to the Federal Government of the Federal Reserve holdings is very small.

According to the President's budget proposal, the gross Federal debt held by the public, including the Federal Reserve, is expected to be about 89 percent of the total Federal debt for fiscal year 1982. Only the remaining 11 percent is to be held by the government agencies.

Therefore, my bill would affect about 89 percent of the debt if the budget were to go out of balance. The rest of the borrowing is necessary for the agencies to operate as we require them to do. My bill would also rein in the off-budget spending since all federal borrowing outside agency borrowing for trust funds would be restricted.

I feel that this is a very rational approach to obtaining a balanced budget. It is relatively easy to accommodate, since we could physically enact this as the part of the budget resolution containing a limit on the public debt. It will also allow us to attack the budget now, rather than wait the seven years to ratify a constitutional amendment.

All of these proposals for cutting back federal spending, balancing the budget, changing the budget process are healthy. They prove that the system is alive. We can no longer allow the spending of the Federal Government to run away unharnessed. This is serious business—not to be taken lightly—but not to be ignored either.

I thank the Chairman and the Task Force for allowing me this time to express my ideas and opinions on this important subject.

Mr. BEILENSON. Let me respond quickly, if I may, to two or three of your points. With respect to your last one, I totally agree with you about the preference of going by statute rather than by constitutional amendment, for the reasons that you include on page 5 of your statement, which you didn't cover just now, but are all the obvious ones. If you are going to do this you should try first by statute before you mess around with the U.S. Constitution.

I think your idea is not at all a bad one. I do want to inform you that it is my feeling that it is unlikely our task force will involve itself with any approach to the balanced budget problem.

Second, with respect to your point 4, about multiyear planning, although many of us agree with you, there is some disagreement at the moment. I don't yet know what we are going to come up with respect to that. Again, even though it is something which certainly many of us believe in in theory, that may be a bit more than we can accomplish.

Again, I am thinking out loud. I don't know what we are going to decide. We have not reached any tentative conclusions at all, but we might want to, on the other hand, recommend some marginal or modest changes in the Budget Act itself without addressing multiyear budgeting, which, as I said, many of us think is necessary but which necessarily will be stepping on the toes or getting involved in all of the policy committees' jurisdictions, both appropriations and authorizations, and whether or not we are going to go in that direction I simply have no feel for yet.

Finally, you said something very interesting at the very beginning, referring to something Mr. Giaimo said to the Budget Committee yesterday. He is right, I think, to be concerned about the potential danger of opening up the Budget Act because there are some folks out there who would obviously like to do away with it entirely.

All I can say is that the feeling I am getting very strongly from almost everyone we have spoken to is quite the opposite. There are some people—and we know who they are; they tend to be appropriations and authorizations people, who feel that their jurisdiction is impinged upon by the budget process.

On the whole, I think it is fair to say overwhelmingly members from both parties, of all kinds and all parts of the spectrum, conservative or liberal when they think seriously about it, do believe in preserving a budget process and are interested in trying to figure out if we could reach a consensus on ways we could improve that process.

I am no longer as concerned as I was a few months ago about the potential danger of opening the Act up, and we do hope very much, of course, sometime early next year to be able to present to the House some proposals for improving the process, but I wouldn't worry quite so much as I think we did some while back that we are opening ourselves up for destruction of the process entirely.

I don't think that is going to happen. I don't think the public would allow it to happen. No. 1, and I don't think the members want it to happen because I think they are very aware, as you are, that we have got to have some macro way of looking at the budget and forcing some discipline upon ourselves which simply isn't possible without some kind of budget process.

We are looking to improve the process rather than in any way doing away with it.

Mr. NELSON. And the discipline is going to have to be severe when we are looking at the magnitude of the potential deficits that we see in the future.

Mr. BEILENSON. I totally agree. It is going to have to come, as many people suggest, not only from the Members themselves, who I think really have been willing to stand by even though it is at times difficult to see that; but also it is going to require a strong commitment on the part of the leadership of both parties as well as strong leadership by the President.

I say this and I don't mean to be partisan in saying it, but obviously a lot of us have had problems dealing with this budget process with a President who many of us think is playing outside of the ballpark parameters that we all should be playing in.

It was very difficult with his budget proposal early this year when even our Republican colleagues in the other house turned down unanimously, to conduct the budget process in Congress. Most of us tend to be middle-of-the-road centrist people. With respect to fiscal policy this year, this President has been quite radical.

We thank you very much for your testimony. Your entire statement will be included in the record.

Mr. NELSON. Thank you very much, Mr. Chairman.

Mr. BEILENSON. Seeing no other members present before us, we will adjourn until Friday morning.

Without objection, the Chair wishes to place in the record, as though read, the following statements submitted by various Members of Congress.

STATEMENT OF HON. ANDY P. IRELAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. IRELAND. Mr. Chairman, members of the task force, I appreciate this opportunity to express my views on the issues and problems currently associated with the congressional budget process. We are all aware of the procedural and partisan difficulties encountered during the last several sessions. However, I believe the real issues transcend these particular areas and are based on a sincere desire on all real parts to do what is best for the economic health of the Nation. Congress has, of late, been thrust continually into the economic spotlight. This responsibility most definitely belongs with us and as such it is essential that we provide the leadership, stability, and continuity required to maintain a strong, healthy, American economy.

During the past 2 years many difficult and painful decisions have been forced upon us by an unruly economy and the spiralling Federal debt. In the present session alone we have done much to reduce the debt through the Omnibus Reconciliation Act and the Tax Equity and Fiscal Responsibility Act of 1982. Even so, the Congressional Budget Office projects the annual budget deficit to average about $155 billion over the 1983-85 period, almost double the 3 year average of deficit targets set in our first budget resolution. More needs to be done.

The congressional budget process, our vehicle to review and account for past decisions and to develop solutions and alternatives for the future, it is generally agreed, is out of control. In order to establish its credibility and to achieve the economic balance we need there are several modifications to the process which I recommend.

Several proposals have been offered to establish the budget process as a biennial undertaking rather than an annual one. Given the often difficult economic decisions to be made, legthening the process gives Members of Congress adequate opportunity to fulfill its oversight functions and to determine appropriate levels of current funding. Such a change would require some restructuring of other aspects of the process such as mandating of 2-year, or longer authorization levels, but would, I believe, benefit not only Members, but several Federal agencies as well. The Defense Department, for example, needs long lead times, and it is important to develop a budget procedure that allows the Pentagon to rely upon a certain level of spending over more than 1 year.

Coupled with this change we have already, informally if not by statute, modified the process. In passing the first budget resolution last spring, we decided the spending targets in that preliminary measure would become binding it the second resolution called for by the budget process was not passed by the end of September.

The situation facing the Congress as we returned from the Labor Day recess it is ample evidence that we need to continue with one binding resolution within the framework of the 2-year budget cycle. We were confronted with the Presidential veto of the supplemental appropriations bill for fiscal year 1982, consideration of fiscal year 1983 appropriations legislation, possible continuing resolutions, and raising the Federal debt limit—all by September 30.

This list, of course, does not include any legislation other than money-related bills. There will be little or no time to consider legislation to, for example, balance the budget.

We cannot underestimate the important work of both our authorizing and appropriating committees. The purpose of the first budget resolution has always been to provide the targets within which these committees were to consider their legislation. The timetable for the first budget resolution can be shifted within the 2-year framework and made binding in order to provide the guidelines and meaningful data the system was intended to provide and the committees require. Later in the process differences between the budget resolution and the committee bills can be accommodated. Changes in economic conditions and emergency situations can be accounted for through the reconciliation process.

Extending the length of time for consideration of the budget would allow the opportunity to include several items I believe we do not now either review or adequately discuss. First, the so-called off-budget items add approximately $20 billion yearly to the national debt. We have been getting further and further into "off the books" programs and conversion of Government agency loans into off-budget activity while drifting further away from cost effective Government.

Second, the moneys for entitlement programs, while the totals appear in the budget resolution, do not go through the appropriations process. Unless structural changes are to be made in these programs few of us have the opportunity under the current system to participate in the review of individual programs. Social security, for example, is the second largest and most rapidly growing item on the expenditure and tax sides of the budget. The basic problem is the enormous long-term financing problem of the retirement program that dwarfs its short-term cash flow problems. These problems require us to decide what we want those programs to accomplish. But, because some people are heavily dependent on them now, any sensible restructuring requires a grace period and/or a gradual phasein.

A final area which should receive our attention is the loan guarantee program. An estimated $90 billion will be needed to cover fiscal year 1982 commitments alone. We really have no sensible notion of bad debt reserves for the half trillion, and growing, in loans guaranteed by the Federal Government. Surely, these amounts warrant more than cursory attention from the Congress.

There are encouraging signs that the policies we have recently adopted are bearing fruit. Inflation is down from the 1980's high of 17 percent to a current 5.1 percent. Interest rates are coming down, although not far or fast enough. We have all gotten the message of just how responsive the economy is to the fiscal policies we set. I believe that we can continue more rapidly on this path by amending the current process as I have described. Thank you.

STATEMENT OF HON. HENRY S. REUSS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. REUSS. Mr. Chairman, members of the task force, I appreciate the opportunity to present my views on the current state of the budget process and what might be done to improve it.

The budget process was and remains a substantial improvement over the spending and taxing procedures which the Congress followed—or didn't follow—in the period before the Budget Reform and Impoundment Control Act of 1974. That act made possible a far more orderly resolution of conflicts over spending and taxing than was possible before. It instituted a powerful and effective control over the dictatorial power of impoundment. And it regularized the schedule of the fiscal year so that it corresponded much more closely with the calendar of Congress. All of these were improvements which we tend to underrate today but which were difficult to achieve and which have a lasting value.

There are also many evils for which the budget process should not be blamed. The problems of fiscal policy are not, broadly speaking, caused by problems of budget procedure. Moreover, the undeniable problems of budget procedure are not, broadly speaking, the result of a poorly designed budget mechanism. Rather, both sets of problems stem from the attempt to push a tool beyond the limits of its design: To use fiscal policy for purposes which it cannot in its nature accomplish, and to stretch workmanlike and day-to-day budget procedures to accomplish revolutionary political results.

Some complain that fiscal policy is not working. The point to our slumping economy, and to the large and growing budget deficits which we face, and they say, "How can a budget process which produces such an economy and such budget deficits be any good?"

This line of thinking implies that fiscal policy alone is reponsible, by itself, for the condition of the economy and the condition of the budget. This is not true. Fiscal policy is but a part of the whole of economic policy, and while a failure of fiscal policy can destroy an otherwise sound economic policy, even the most stellar fiscal policy cannot set right the evils of bad or nonexistent policy in all the other domains.

This administration has deliberately fostered the false notion that fiscal policy can do everything. Under supplyside economics, fiscal policy was assigned the entire burden of promoting economic growth, of shifting the composition of output from consumption to investment, of reducing disincentives to work and to save, and, finally, of curing the deficit in our national budget. We were told that fiscal policy alone would do all of these things, leaving monetary policy to fight inflation, and permitting us to dispense altogether with policies on incomes, credit, industrialization and energy.

Well, we now know that fiscal policy can't do all of those things. And no amount of tinkering with budget procedure will enable us to devise a fiscal policy that can. Those who argue that the problem is in the procedure are searching a haystack for a needle that is not there. Perhaps, they would prefer that we not notice the nearby warehouse full of needles which is burning down.

Of course, the budget procedure, even when its purpose is conceived more narrowly as simply that of passing spending and taxing legislation each year in an orderly way, does have problems. It is creaking and groaning under the vast burden of changes in spending programs and flipflops on tax policy which the administration has pursued. We are missing deadlines, and whole pieces of the budget process—such as the development of an independent, binding second budget resolution, are being bypassed altogether.

This is not the fault of the budget process either. Rather, it is the fault of those who attempt to use the procedures of the budget process to impose their will on the Congress, and particularly on the House of Representatives, against the opposition of the standing committees. What we have seen, particularly in Gramm-Latta last year, is an unprecedented effort to use the budget process to achieve a political revolution that would otherwise be impossible or nearly so. There may be a procedural lesson in this. But, if so, it is certainly not that the budget process is too loose and ineffective. Rather, it is that the process is too tight and too effective, and ought to be reined in so as to make more difficult the bypassing of the committee structure, the block voting on ill-conceived omnibus legislation, and the need for massive rewriting of everything in conference that characterized the budget process in 1981.

In short, I recommend that the existing budget process be substantially retained, but that Congress resist with ever greater vigor those who falsely claim that it is the end all and be all of economic policy, and those who seek to use the procedures to effect a greater shift in the economic priorities of the Nation than the voters, through their selection of their Representatives, have chosen.

Let me turn now to the areas where the budget process would be genuinely improved by reform. I have five nominations.

MONETARY POLICY

Monetary policy should be incorporated into the budget process in a formal and regular way. This year, Congress took a large step in the right direction. We included, as part of the first budget resolution, a congressional directive to the Federal Reserve to take explicit account of our budget actions in setting its monetary targets. This should be done every time.

Monetary policy is as a practical matter inseparable from the budget process. The rate of money and credit expansion is a powerful determinant of the rate of growth of real gross national product, and of inflation, and of unemployment. The level of interest rates also, more directly, determines the rate at which debt service must be paid on the national debt. Thus, when we in Congress adopt an economic forecast which underlies our budget resolution estimates of spending and revenues, we are at the mercy of monetary policy in two ways. Monetary policy can invalidate our forecasts, and so frustrate both our spending ceilings and our revenue floors. And higher than expected interest rates directly contribute to unexpected surges in the budget deficit.

Our ultimate objective should be to bring monetary policy into complete conformity with the assumptions of the budget resolution as adopted by vote of the Members of Congress. There is no reason why the Federal Reserve should be permitted to pursue economic objectives different from those in the budget. And especially there is no reason why it should be permitted to do so in secret.

The procedure initiated this year provides, despite and ad hoc manner in which it was devised, a serviceable way to begin to integrate monetary policy into the budget process. Let me remind you how it was done.

First, in January and February the Joint Economic Committee held hearings on the economy, and made recommendations on both monetary and fiscal policy in early March. As chariman, I presented our recommendations to both budget committees.

In February, the Federal Reserve presented its semiannual report on monetary policy under the Humphrey-Hawkins Act to the Banking Committees. One of those committees, the House Banking Committee, subsequently recommended in the committee report which was filed pursuant to the Humphrey-Hawkins Act that Congress specifically instruct the Federal Reserve to ease its targets.

In May, the Budget Committees recommended, and Congress agreed, that specific language on monetary policy be incorporated in a sense-of-Congress resolution on monetary policy in the budget resolution.

This procedure had the genius of allowing all the interested committees of Congress a full say in the development of a consensus view on monetary policy. It had the further advantage of expressing that view in conjunction with a statement about fiscal policy—which is the only way a coherent position on monetary policy can be expressed. And it had the supreme merit of assuming a form—a sense-of-Congress resolution—which, because the President's signature is not required, preserves the Federal Reserve's traditional independence from the Executive while reaffirming its dependence on the will of Congress. Finally, it was effective. Immediately following enactment of the resolution, the Federal Reserve did reevaluate its monetary targets, and raised them, and the blessing of somewhat lower interest rates which we now experience is the direct result.

This procedure should be made a formal and permanent part of the budget process. I would recommend only one further step at this time: enactment of H.R. 6967, the Balanced Monetary Policy Act, which expands somewhat the range of targets which the Federal Reserve must report to Congress, to include long-term interest rate targets as well as targets for money and credit. This measure would further improve the ability of all parties to evaluate what current Federal Reserve policy is, and to develop a coherent response to it.

CAPITAL BUDGETING

Second, we would be well-served by a move to divide the presentation of the budget into capital and current accounts. This should be done formally in the President's budget request, and there should be separate titles of functional subdivisions of the various congressional budget resolutions for each of the separate accounts.

A move to capital budgeting would bring Federal practice into line with that of every State and local government in the country, and of every private business. But, much more important, it would enable us to see what we are doing. Most of us, I believe, recognize that the key to our Nation's economic future lies in adequate investment—not only in plant and equipment, but also in public capital, in infrastructure, and in the human capital of basic education, training, and research. It was these investment items which were most drastically cut over the past 2 years. Would the administrtion and Congress have been so willing so sabotage our national future, as they and we have done, had our accountants clearly shown the disproportion in the cuts between capital and current accounts?

A capital budget would also permit a much needed comparison between the stream of returns on particular investment projects and the amortization of their costs. It is only insane that we insist, in our society, on paying for bridges, buildings, scientific advances, and educations which will yield returns for a lifetime or longer out of current tax revenues in the first year. Correct amortization through capital budgeting would show, once again, how much more of such investment projects we truly can as a society afford.

Special Analysis D of the budget provides an annual first effort at dividing the budget into current and capital accounts, and discussion of the problems which remain. To be sure, there are such problems. But is certain that they are outweighed by the clear-headed view that capital budgeting would provide of our national needs for investment and of our true national ability to pay for them.

As an aside, I would urge that in any formal effort to incorporate capital budgeting into the budget process, civilian and military accounts be subdivided separately into capital and current subaccounts. This would make even more clear the nature of changes being sought in the allocation of resources, and would also isolate one of the more serious capital accounting problems, namely calculating the depreciation on military equipment.

INFLATION ACCOUNTING

Third, with even rudimentary capital budgeting in place, we should at least modernize the accounting conventions according to which the Goverment sector treats interest on the national debt, so as to bring our Government into line with prevailing practice in the private sector. This is no abstract or pedantic item: our flawed procedures have caused endless opportunities for demagoguery, political mischief, and consequent bad economic judgments in recent years. The reason is the effect on these accounting procedures of inflation.

Specifically, we often hear that inflation is a tax, because of the rising proportion of income which flows to the Treasury in inflationary times. We seldom hear the converse proposition, which is that inflation, by itself, reduces the burden of the national debt on future taxpayers. Nor do we hear the further, and most important point, which is that, in inflation, a large part of the interest payments which are being made on existing national debt are in fact going to repay the principal value of the outstanding debt.

These payments on the debt should, under capital budgeting, not be counted as part of current outlays. The inflation premium in net interest paid should be deducted from current outlays, and recorded in the capital account. This procedure would conform to the recommendations made a few years ago by the Financial Accounting Standards Board [FASB] and widely in the use in the private sector.

Astonishingly, correct accounting for the effects of inflation on interest and debt would reveal, as Prof. Alan S. Blinder noted in the Washington Post a few days ago, that we have not been running large deficits and a "loose fiscal policy" at all. We have in fact been running a tight fiscal policy by historical standards—even surpluses in most years—on current account. It is possible that a correct understanding of these issues would greatly ease the transition to economic policies which directly attack our root problems of underinvestment and umemployment.

INDEXING

We should move to a simplification and standardization of current rules providing for cost-of-living adjustments to various recipients of Federal expenditure dollars.

Such a standardization and simplification would be desirable for its own sake, but it would also help the budget process by cutting down on the number of separate decisions that have to be taken, and distributive conflicts that have to be resolved, in each budget cycle.

Under current laws, different recipients of Federal programs get compensated for inflation at widely different rates. Health care programs, for example, expand each year by nearly the full extent of the cost increase in that program, which may be well above the general rate of inflation. Social security recipients and Federal retirees, for the most part, receive an increment to their paychecks equal by law to the full amount of past consumer price inflation. Current Federal employees get far less, at the President's discretion. And all of these may be compensated for inflation at a rate different from that of the average private-sector working man or woman.

The effect of this is to constrict the freedom of movement within the budget process. Exorbitant health care costs squeeze all other programs. The fact that full CPI indexing must be paid to social security recipients and Federal retirees puts pressure on the President to bear down hard on active duty Federal civilian and military employees. And new initiatives are squeezed out of the budget process altogether.

Moreover, differential indexing is not fair. The purpose of inflation indexing is to compensate for inflation. It is not and should not be a means to redistribute income, with the degree of redistribution depending arbitrarily on the rate of inflation. But that is now the case. High inflation makes retirees relatively richer at the expense of active workers—not incidentally undermining the support of the latter for programs to aid the former.

A fair and reasonable alternative is to standardize all inflation adjustments which reasonably can be standardized into a single annual adjustment applicant to everybody receiving budget funds. This adjustment would be requested by the President in his budget and approved by Congress as part of the budget process. But since it would be uniform, applying equally to civilians and military, active duty personnel and retirees, workers and welfare recipients alike, there would be no temptation to grandstand with the number and no opportunity to play the politics of favoring one group over another through the indexing process. The President would simply have to weigh the need for budget austerity against considerations of fairness, and come up with a number. And since there would only be one decision to make each year, instead of many, Congress would find part of the budget process usefully simplified, and with it the general business of expenditure control.

THE BUDGET CYCLE

My final comments have to do with the the budget cycle. It has been suggested that the Congress should move toward a multiyear budgeting process, and begin by adopting a 2-year budget cycle in place of a 1-year cycle.

In my judgment this would bring many more problems than benefits. It would, for example, make early action on the economic program of a new President impossible, and thus severely handicap any President's ability to accomplish his objectives in the space of 4 years. It would also, for better or worse, mean either that all budget decisions were taken in congressional election years, under the peculiar set of pressures which pertain them, or that they were all taken in off years. Neither seems to me a desirable outcome.

On a more technical level, multiyear budgeting would greatly increase the errors inherent in making budget estimates, and hence the difficulty of designing appropriate tax and spending policy. The reason for this is simple. In an uncertain and changing economy, the error implicit in a forecast depends heavily on the lapse of time between the date the forecast was made and the date to which it applies. Budgeting errors rose after the introduction of the new budget process, unavoidably, because the shift to an October 1–September 30 fiscal year lengthened the span between submission of the President's budget request and the beginning of the fiscal year to which it applies. Further lengthening of that span would risk making budget estimates as originally published all but worthless.

The key to successful budgeting is not to take longer doing it. It is to attempt to do less each time around. We should simplify our decisions, stick with the basic outline of our programs, and not try to revolutionize the world in each year's budget. Full realization of this must, of course, await a more settled political climate. But perhaps that is not too much to hope for. And, in the meantime, we would be wrong to look to the budget process to solve those political problems which we cannot solve in our own minds.

STATEMENT OF HON. ELDON RUDD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. RUDD. In reviewing the budget process that we undergo each year, I am reminded of what King James I said to his parliament out of frustration for moving too slowly: "I have watched you sit and sit and sit and yet nothing has hatched."

The Congressional Budget and Impoundment Control Act of 1974 was developed as a tool so that Congress could have the opportunity, and more importantly, the responsibility for deciding the overall level of spending and taxes in a given year in order to be able to make explicit choices on the total direction and force of fiscal policy.

It was hoped that through the budget process set up by Public Law 93-344, Congress would be able to develop greater control over spending, and create a forum to establish priorities within the Federal budget.

The budget process calls for a set schedule for introduction of a budget proposal from the executive branch, a timely response from the authorizing committee, an early target date for the budget committee to set up a framework of revenue and spending targets, and finally, action by all authorizing and Appropriations Committees to establish a firm budget to be formally adopted and binding for the fiscal year.

This sounds simple, and indeed, rational to meet the goals of giving Congress a chance to review and make decisions on the "big picture" as well as preserve the role of Congress in initiating, overseeing, and funding individual programs.

The results, however, are as complicated as they are staggering.

Since 1974, there have been enormous changes in the size and scope of the Federal budget and in the economy as a whole. Federal budget outlays have nearly tripled since then, as have Federal revenues. In 1974, the Federal Government spent close to $250 billion. In fiscal year 1983, that figure will go to nearly $770 billion. In 1974, Federal revenues stood at $260 billion; in fiscal year 1983, that tax burden will have risen to nearly $650 billion.

What is more ominous is the growth in the gross Federal debt. In fiscal year 1983, the gross Federal debt is expected to exceed $1.2 trillion. In 1974, that gross debt was a third that size standing at $486 billion.

Different factors have influenced the acceleration of the growth of the budget. However, it is clear that, since the enactment of the budget process under the Congressional Budget and Impoundment Act of 1974, there has been an unprecedented growth in the size of the Federal budget, and an increasing and alarming reliance on deficit financing to fund that increase. At the same time, the tax burden for every working American has increased at its highest rate since World War II. I point this out as an observation of fact; whether there is a direct, causal relationship between the current budget process and the state of the Federal budget is a matter of debate.

What I have discussed serves as a backdrop for reviewing the effects on this budget process for the Congress.

Increasingly, this Congress is making policy decisions based on up or down votes for budget resolutions and not allowing the authorizing committees or Appropriations Committees to make sound decisions based on deliberative review.

Increasingly, this Congress is working longer hours, longer terms of session, and accomplishing less and less.

This year, we have yet to vote on the floor for more than 1 appropriations bill out of 13. This is directly the result of the confusion and delay sown by the problems surrounding the budget process. Most Appropriations Subcommittees simply could not mark up their bills, even though the hearings were concluded in May, until now, because of the confusion surrounding the budget resolution and the allocations to each subcommittee. These subcommittees are charged with overseeing the spending in all Federal programs, have had their hands tied through line item budgetary directions that had no place in a budget resolution.

Again, this year, Congress will fail to meet any of its self-imposed deadlines under the Budget Act, and again, will fail to have all appropriations bills passed and made into law before the start of the new fiscal year.

The object of the Congressional Budget and Impoundment Control Act was to give an institutional framework for the Members to oversee the entire Federal budget in an efficient manner, and to give the legislature more of its constitutionally mandated control over the Federal pursestrings. Experience shows us that the budget process as it stands is a failure. It has failed to help Congress exert control over the Federal budget and it has failed to give the Congress proper framework from which to make individual decisions on individual programs.

Before 1974, this Congress managed to put together a budget every year without spending a good percentage of this body's time dealing strictly with budget resolutions.

We need to have a budget process that will allows for a budget resolution early in the Congressional Calendar, that sets only general targets and allows no specific line item debate. Then, the authorizing and appropriating committees can make their decisions regarding the individual programs. Finally, if need be, a reconciliation bill can be allowed if the committees cannot justify sufficiently for this body, spending that is either over or under the general targets.

I would suggest that the budget "target" resolution concentrate on the estimated revenue and then construct targets so as to match the expected revenue for the planned fiscal year. Then the decisions for overspending or underspending should be made in the committees that have the spending jurisdiction over individual programs.

At no time during the budget process, except during a reconciliation process, should the full House come to debate on the merits of specific line items.

Strict enforcement of the guidelines to keep budget resolutions to very general targets; and only allow the committees to work out individual programs, subject to full House approval, will streamline the budget process, and allow this body to give full, complete, and fair consideration to all aspects of the Federal budget.

It is time for Congress to concentrate on building the structure for fiscal prudence and stop wasting so much time arguing over the framework.

STATEMENT OF HON. ROBERT A. ROE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. ROE. Mr. Chairman and members of the Task Force on the Budget Process, thank you for this opportunity to submit for the record a few thoughts about the congressional budget process, highlighting particularly selected issues with accompanying recommendations.

John F. Kennedy once observed: "To govern is to choose." Of all the legislative matters before the Congress during the 97th session, none has been more political or more crucial than the choices embodied in the Federal budget. These past 2 years, more than ever before, the budget decisions that were initiatd by the administration and endorsed in final form by the Congress will, I believe, touch virtually every significant Government program and activity.

Mr. Chairman, budgets are, by their nature, political documents. A congressional budget resolution, like a Presidential budget proposal, sets forth macroeconomic policy as well as a set of budget priorities. In achieving the 1975 reforms encompassed by the Congressional Budget and Impoundment Control Act, Congress chose to consolidate major economic and budget decisions in a single measure—the budget resolution. But this reform also carried with it the responsibilities of defending the budget from a wide range of criticisms, with no one likely to be completely satisfied with any budget proposal.

Consequently, an understanding of the politics of proposing and adopting budget resolutions is crucial to any analysis of the effectiveness of the congressional budget process and the prospects for its success in the future. Accordingly, I would like to focus my comments on two major issues: The degree of specificity in a budget resolution and report; the particular timing and procedural issues.

The first issue is of great concern to the authorizing and appropriating committees. The Budget Act requires only that budget resolutions contain amounts for budget totals and major functional categories—actual program levels are not to be spelled out in the resolution itself. The act also provides that the report accompanying the budget resolution spell out with respect to each major functional category the appropriate level of outlays and new budget authority for all proposed and existing programs. Moreover, the act requires the Budget Committee to set forth in its report:

> Information, data, and comparisons indicating the manner in which, and the basis on which, the Committee determined each of the matters set forth in the concurrent resolution, and the relationship of such matters to other budget contingencies.

However, in his statement on the adoption of the conference report on the Budget Act, Congressman Richard Bolling, the House floor manager of the bill, stated the legislative intent of the budget resolution as follows:

> The Budget Committees are not expected to devote much of their attention to the specifics of Federal spending. The budget resolution should not get into particular programs, agencies, appropriations, or projects. To do so would destroy the utility of the congressional budget process as an instrument for making national economic policy.

Compelling as this statement is, we have witnessed over the last 7 years a systematic increase in the overall level of programmatic detail contained in a budget resolution. We have gone from aggregates to aggregates and functional totals and now to aggregates, functional totals, and funding program levels. This year, for example, the budget resolution established, in essence, actual authorization and appropriation levels.

What has resulted is chaos in the legislative process: meaningful analysis has been precluded, debate foreclosed, and serious time constraints imposed. In all, the "move" to detailed budgeting has served to undermine, rather than strengthen, the overall legislative and budget processes.

Accordingly, I would recommend that the task force review and give serious consideration to the original intent of the Budget Act: to insure a budget process that provides macroeconomic decisions to guide Congress.

More specifically, I'd like to touch on a few procedural and timing issues.

With respect to the former, I authored two amendments which were incorporated into the last budget resolution, dealing with two important procedural matters: 90 percent self-financed trust funds and the reconciliation process.

The first amendment exempted from the deferred enrollment requirement of the Budget Act 90 percent self-financed trust fund spending bills if, and only if, Congress increases revenues for these programs. It is important to note that this exemption applied only to 90 percent self-financed trust fund programs which historically apply earmarked revenues for a dedicated purpose and which are currently exempt under the Budget Act.

It is important to note further that this amendment became necessary because these "self-supporting type" programs were made subject to the same procedural constraints as general appropriated programs. This should not be the case in any budget process. These programs don't add to the deficit—they make money.

In addition, the second amendment in dealing with user fees focused on the overall issue of reconciliation in a first budget resolution.

In formulating the Budget Act, the reconciliation concept was suggested by Charles Schultze, who proposed that Congress "use the same method for finalizing its budget as is used by the executive branch." The legislative history also supports the position that reconciliation was intended to implement the determinations made in the second, or final, budget resolution for a fiscal year.

But that was not the case in fiscal year 1981—the first time reconciliation was implemented on the spending side—nor was it the situation this year. There are those who say that in these unprecedented economic times, reconciliation is a necessary procedure. But it must also be said that inclusion of reconciliation in the first budget resolution significantly diminishes the responsibilities of the authorizing committees for making policy decisions in a meaningful fashion.

If it is the decision of Congress to reduce Federal spending, then so be it. But I do not believe the mechanism for that decision should be reconciliation in the first budget resolution. Nor should reconciliation in any spending resolution call for spending reductions in the outyears. Neither approach is contemplated by the

Budget Act. Reconciliation was designed to bring spending in line with the budget ceiling for a particular year, not future years. Section 310 of the Budget Act is clear on this, as is section 310(b)(2), which specifically limits reconciliation "to the enactment of spending legislation for the coming fiscal year."

We can achieve the reductions necessary in fiscal years 1984 and 1985 by lowering the total budget ceilings for those years when we enact the budget resolutions. Attempting to force those reductions now, prior to consideration of the budget resolution for those years, does violence to the Budget Act and robs Congress of the flexibility it must have if Federal spending is to be controlled and sound fiscal policy achieved.

Last, let me raise three timing issues for your consideration: The submission of the President's budget; the March 15 views and estimates reports; the May 15 reporting requirement. I believe all three should be addressed together as the timing of one has a real effect on the others.

Over the last few years, Congress has witnessed the increasing difficulties inherent in trying to report out its authorization legislation by May 15. So much time is spent on the March 15 views and estimates reports that one of two things inevitably happen: either May 15 becomes an impossibility or, in meeting it, the quality of the legislative product suffers.

Conversely, the March 15 effort has taken a great deal of time due to the lateness of the President's budget submission, receipt of guidelines from the Budget Committee, et cetera.

Accordingly, to alleviate some of the time constraints and, in doing so, to improve overall work quality, I suggest the task force consider amending the Budget Act to require that the President submit his budget no later than 5 days after Congress convenes; that the filing date for the March 15 report be extended to March 20; and that committees have until June 1 to report out authorization bills.

Mr. Chairman, members of the task force, there are many other areas that need to be addressed, including the number of budget resolutions, continuing resolutions, multiplicity of effort, et cetera.

In considering these as well as the issues I have raised it is imperative, I believe, that if we are to adhere to wise and prudent funding policies, we must do so through a meaningful and viable budget process. That challenge now faces all of us. In the next few months we are going to find out whether we have the resourcefulness and the determination to meet it. Together, I believe we can.

Thank you.

STATEMENT OF HON. CECIL HEFTEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF HAWAII

Mr. HEFTEL. Mr. Chairman, I am pleased to participate in this important review of the congressional budget process. I congratulate you for your leadership in coordinating this effort and hope that my comments will be of assistance to the task force. I would like to discuss with you two changes in budget procedure which I feel would streamline and strengthen the process.

First, I believe that it is imperative that the Congress develop and formalize a better means of arriving at valid economic assumptions which will guide our budget deliberations. It is important that the economic assumptions be considered as an integral part of the congressional budget process.

I have introduced legislation which calls for more formal congressional consideration of economic assumptions which would be drawn up by a newly formed Council on Economic Indicators. The Council, made up of the Federal Reserve Chairman, Office of Management and Budget Director, Secretary of the Treasury, Chairman of the Council of Economic Advisers, Director of the Congressional Budget Office, and the chairmen of the House and Senate Budget Committees, would be empowered to draw up a set of economic assumptions; namely, real GNP growth, GNP deflator, CPI, unemployment rate, and 91-day treasury bill rate, which would be presented to the Congress in January of each year. The House and Senate would be required to vote on these assumptions or other alternatives which the budget committees might offer prior to their consideration of the budget resolution. Approval of valid economic assumptions by the Congress would be a key step in the budget process, and would provide Congress with essential indicators upon which it could frame a budget.

Finally, Mr. Chairman, I would like to suggest a change in the budget process which formally recognizes the importance of the first budget resolution and the potential of reconciliation in guiding the authorization and appropriations process.

The experience of the last two budget cycles has convinced me of the preeminence of the first concurrent resolution on the budget. For this reason, I believe that we should make the targets of the first budget resolution binding. I further believe that reconciliation should be made a permanent part of the first resolution and that the requirement for a second concurrent resolution should be eliminated. The experience of reconciliation is that it is a painstaking, time consuming process. The time needed to draft a reconciliation bill for the upcoming fiscal year is simply not available for the second budget resolution. The first resolution is a planning instrument for the Congress and is, therefore, an appropriate vehicle on which to attach the necessary reconciliation instructions. Delaying reconciliation until after the second budget resoution could slow important tax and spending decisions well into the new fiscal year and delay policy decisions which should already have taken place.

Mr. Chairman, I have introduced legislation which eliminates the second required concurrent resolution and ties reconciliation to a binding first budget resolution. I believe that this proposal would streamline the budget process and, at the same time, allow the Congress adequate time to make the necessary spending, taxation, and policy changes for the upcoming fiscal year.

I very much appreciate having had the opportunity to discuss these issues with you today. I hope that our efforts will produce useful change in the budget process which will well serve the American people.

Thank you very much.

[The following material was submitted for the record by Congressman Heftel of Hawaii:]

I

97TH CONGRESS
2D SESSION

H. R. 7036

To amend the Congressional Budget Act of 1974 to establish a Council on Economic Indicators and to provide for House and Senate approval of economic assumptions underlying the budget.

IN THE HOUSE OF REPRESENTATIVES

AUGUST 19, 1982

Mr. HEFTEL introduced the following bill; which was referred to the Committee on Rules

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A BILL

To amend the Congressional Budget Act of 1974 to establish a Council on Economic Indicators and to provide for House and Senate approval of economic assumptions underlying the budget.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) title III of the Congressional Budget Act of 1974 is amended by inserting at the end thereof the following:

"ECONOMIC ASSUMPTIONS

"SEC. 312. (a) COUNCIL ON ECONOMIC INDICATORS.—

"(1) There is established the Council on Economic Indicators (hereinafter in this section referred to as the 'Council').

"(2) The Council shall be composed of seven members as follows:

"(A) The Chairman of the Board of Governors of the Federal Reserve System, who shall serve as its chairman.

"(B) The Secretary of the Treasury.

"(C) The Chairman of the Council of Economic Advisers.

"(D) The Director of the Office of Management and Budget.

"(E) The Director of the Congressional Budget Office.

"(F) The Chairman of the Committee on the Budget of the House of Representatives.

"(G) The Chairman of the Committee on the Budget of the Senate.

"(3) The Council shall meet from time to time and shall transmit a report to the President and to the Committee on the Budget of each House of Congress during the first fifteen days of each regular session of Congress. The report shall contain the Council's estimates of the economic assumptions for the current calendar year and the calendar year immediately following the current calendar year as follows:

"(A) Real gross national product.

"(B) GNP deflator (percent change).

"(C) CPI (percent change).

"(D) Unemployment rate (percent).

"(E) Ninety-one day Treasury bill rate (percent).

"(b) ADOPTION OF ECONOMIC ASSUMPTION.—

"(1) On or before March 1 of each year, the Committee on the Budget shall report a resolution to its House containing the estimates of the Council for the current calendar year and the calendar year immediately following the current calendar year, as affirmed or revised by the committee.

"(2) Not later than March 15 of each year, the House and Senate shall complete action on the resolutions reported by their Committees on the Budget under paragraph (1).".

The table of contents in section 1(b) of the Congressional Budget and Impoundment Control Act of 1974 is amended by inserting after the item relating to section 311 the following new item:

"Sec. 312. Economic assumptions.".

Implementing Legislation - H.R. 7036

Implementing legislation would establish a Council on Economic Indicators. The Council would be composed of seven members. The Chairman of the Federal Reserve Board would chair the Council. Members of the Council from the Administration would be the Director of the Office of Management and Budget, the Chairman of the Council of Economic Advisors, and the Secretary of the Treasury. The Congress would be represented on the Council by the Director of the Congressional Budget Office and the Chairmen of the House and Senate Budget Committees.

The legislation calls for more formal congressional consideration of "economic assumptions" which would be drawn by the Council on Economic Indicators. The economic assumptions, namely, real GNP growth, GNP deflator, CPI, unemployment rate, and 91-day Treasury bill rate, would be projected by the Council and presented to the Congress in January of each year by the President as part of his budget submission.

The assumptions would be referred to the House and Senate Budget Committees which would have the option of accepting them or proposing alternatives. The respective Houses of Congress would then vote on the alternative assumptions (if any) presented, and/or those assumptions offered by the Council. This process would be completed by March 15. With a set of economic assumptions serving as a guideline, both the House and Senate would then begin to craft their respective budget resolutions.

(Original signature of Member)

97th CONGRESS
2d SESSION

H.R. 7091

Insert title here ☞

To amend the Congressional Budget Act of 1974 to make first concurrent resolutions on the budget binding, to eliminate second concurrent resolutions on the budget, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

__________, 19__

Insert sponsor's names here ☞

Mr. HEFTEL introduced the following bill; which was referred to the Committee on __________

A BILL

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

ANNUAL CONCURRENT RESOLUTION ON THE BUDGET

SECTION 1. (a) The heading of section 301 of the Congressional Budget Act of 1974 is amended to read as follows:

''ANNUAL ADOPTION OF CONCURRENT RESOLUTION ON THE BUDGET''.

(b) Section 301(a) of such Act is amended by striking out ''the first concurrent resolution on the budget'' in the first sentence and inserting in lieu thereof ''a concurrent resolution on the budget''.

(c) Section 301(b) of such Act is amended--

(1) by striking out ''first'' in the matter preceding paragraph (1);

(2) by striking out ''shall not be enrolled until'' and all that follows in paragraph (1) and inserting in lieu thereof ''shall not be enrolled until a subsequent concurrent resolution on the budget has been agreed to or other specified action has been subsequently taken (and, if a reconciliation bill or reconciliation resolution is required to be reported in connection with either such concurrent resolution on the budget or otherwise, until the Congress has completed action on that bill or resolution)'';

(3) by redesignating paragraph (2) as paragraph (3); and

(4) by inserting after paragraph (1) the following

new paragraph:

''(2) the reconciliation procedure described in section 310; and''.

(d) Section 301(d) of such Act is amended--

(1) by striking out ''first'' in the first and second sentences; and

(2) by striking out ''as set forth in such concurrent resolution'' in paragraph (2) and inserting in lieu thereof ''as set forth in such concurrent resolution''.

(e) Section 301(e) of such Act is amended by striking out ''first'' in paragraphs (1) and (2).

ELIMINATION OF SECOND CONCURRENT RESOLUTION AS PRESENTLY REQUIRED

SEC. 2. Section 310 of such Act is amended--

(1) by striking out ''SECOND REQUIRED CONCURRENT RESOLUTION AND'' in the heading;

(2) by striking out the heading of subsection (a), and the first and last sentences of such subsection;

(3) by striking out subsection (b);

(4) by redesignating subsection (c) as subsection (b); and

(5) by striking out subsections (d), (e), and (f).

RECONCILIATION PROCESS

SEC. 3. (a) Section 310(a) of the Congressional Budget

Act of 1974 (as amended by section 2 of this Act) is further amended by striking out all that precedes paragraph (1) and inserting in lieu thereof the following:

''(a) INCLUSION OF RECONCILIATION DIRECTIONS IN CONCURRENT RESOLUTIONS ON THE BUDGET.--Any concurrent resolution on the budget may, to the extent necessary to effectuate the provisions and requirements of such resolution--''.

(b) Section 310(b) of such Act (as amended and redesignated by section 2 of this Act) is amended by inserting at the end thereof the following: ''Congress shall complete action on any reconciliation bill or reconciliation resolution not later than August 1 of each year.''.

BINDING EFFECT OF CONCURRENT RESOLUTION

SEC. 4. Section 311(a) of the Congressional Budget Act of 1974 is amended by striking out ''After the Congress'' and all that follows down through ''310(c)'' and inserting in lieu thereof ''After the Congress has completed action on a concurrent resolution on the budget for a fiscal year, and, if a reconciliation bill or resolution (or both) for such fiscal year is required to be reported by such concurrent resolution on the budget''.

OTHER TECHNICAL AND CONFORMING AMENDMENTS

SEC. 5. (a) The table of contents in section 1(b) of the Congressional Budget and Impoundment Control Act of 1974 is amended--

(1) by striking out ''Adoption of First Concurrent Resolution'' in the item relating to section 301 and inserting in lieu thereof ''Annual Adoption of Concurrent Resolution on the Budget'';

(2) by striking out ''First concurrent resolution'' in the item relating to section 303 and inserting in lieu thereof ''Concurrent resolution''; and

(3) by striking out ''Second required concurrent resolution and reconciliation'' in the item relating to section 310 and inserting in lieu thereof ''Reconciliation''.

(b) Section 3(4) of such Act is amended--

(1) by adding ''and'' after the semicolon at the end of subparagraph (A);

(2) by striking out subparagraph (B); and

(3) by redesignating subparagraph (C) as subparagraph (B).

(c) Section 300 of the Congressional Budget Act of 1974 is amended--

(1) by striking out ''first'' in the item relating to April 15 and in the second item relating to May 15;

(2) by striking out the items relating to September 15 and September 25 in their entirety; and

(3) by inserting after the item relating to May 15

the following new item:

''August 1....................Congress completes action on reconciliation bill or resolution, or both.''.

(d) Section 302(c) of such Act is amended by striking out ''or 310''.

(e) Section 303 of such Act is amended--

(1) by striking out ''FIRST'' in the heading; and

(2) by striking out ''first'' in subsection (a) (in the matter following paragraph (4)).

(f) Section 305 of such Act is amended by striking out '', except that'' and all that follows down through ''15 hours'' in subsection (b)(1).

(g) Section 309(1) of such Act is amended by striking out ''other than the reconciliation bill for such year, if required to be reported under section 310(c)'' and inserting in lieu thereof ''other than reconciliation bills and resolutions''.

(h) Rule XLIX of the Rules of the House of Representatives is amended--

(1) by striking out '', 304, or 310'' in clause (1) and inserting in lieu thereof ''or 304''; and

(2) by inserting before the period at the end of clause (5) the following: ''; and the term 'appropriate level of the public debt' with respect to any concurrent resolution on the budget means the level designated as

the appropriate level of the public debt in the joint explanatory statement accompanying the conference report on such resolution pursuant to the last sentence of section 302(a) of the Congressional Budget Act of 1974''.

EFFECTIVE DATE

SEC. 6. The amendments made by this Act shall apply with respect to the congressional budget for the fiscal year beginning October 1, 1983.

STATEMENT OF HON. BILL GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Green**. There is a great deal of frustration and dissatisfaction in Congress, in the administration and elsewhere in the country over the drawn-out budget process we have been engaged in—ensnarled in—for most of the past 18 months.

The "First Budget Resolution" for fiscal year 1983 just squeeked through and the air filled immediately with predictions that Congress could never pass the tax increases and spending cuts required by the resolution. In 1981 the second budget resolution was not adopted until we were several months into the new fiscal year.

Why is formulating a budget so difficult for Congress? One reason is that this is a relatively new process. For 186 years there was no congressionally enacted budget.

Until 1974, Congress and its parts—the committees—simply acted separately on spending measures. It inevitably overspent its intentions and so when faced with the alternative of closing down the Government, it said "oops", promised to do better in the future and raised the debt ceiling.

Congress lack of discipline often frustrated Presidents who occasionally would refuse to spend all the money. But the legislative branch felt Nixon's impoundments in 1973 were quite excessive and so restricted the President's right to refuse to spend money Congress appropriated. Realizing that some overall view of spending was necessary, it passed the 1974 Budget and Impoundment Control Act which required Congress to pass by May 15 of each year a first budget resolution to be originated by new budget committees. This resolution contains an overall spending ceiling subdivided into 19 budget categories, each with its own ceiling; a level of revenues to be raised and a resultant deficit or surplus. After Congress has legislated and appropriated in the ordinary course, it is to return to the overall budget and pass by September 15 a second budget resolution with the same structure as the first. If this resolution requires changes in what Congress had previously done—to roll back an appropriation, reduce spending on an entitlement program, or increase taxes—this is to be done by a "reconciliation bill" which would bring the law into conformity with the resolution.

Passage of the 1974 act was promptly followed by a succession of some of the largest peacetime deficits in history. So in 1980 Congress decided to try to put some teeth in the process by moving reconciliation to the first budget resolution.

Thus that year's first budget resolution contained instructions to the relevant committees to produce statutory changes which, embodied in a reconciliation bill, would produce savings of $10.6 billion. Faced with the threat that the House and Senate Budget Committees would produce such legislation if they failed, the regular committees made a good faith effort to comply and produced savings of $8.2 billion. That process became the primary vehicle by which the Reagan administration sought to restrain the growth in Federal spending in 1981; its reconciliation bill held Federal spending $36 billion below the level to which it would otherwise have grown in the current fiscal year.

Why the difficulties this year?

One, the process is a new one. This is only the third year that the early reconciliation procedure is in effect. We are still learning its ramifications.

Two, the budget resolution is supposed to set priorities among major budget categories, such as defense, income security and general science, and not deal with program issues within categories. But it does not work that way. Budgeting is not zero based. We decide what we can cut and what needs increasing by assessing whether what we have now is working. That invariably gets us into the snarl of program issues.

Three, in certain budget categories even raw budget numbers have clear program implications. In defense, for example, rations of budget authorty (the amount appropriated) to outlays (the amount spent from the appropriation within the given year) vary greatly from area to area. Thus, a reduction of $1 billion for military pay will result in a reduction of approximately a like amount in outlays—and hence the deficit—in the next fiscal year. But a cut of $1 billion in new budget authority for shipbuilding will produce an outlay/dificit cut of only about $50 million in the next fiscal year (though correspondingly more in future years.).

So, much as he might like to, Dave Stockman cannot tell us simply to cut billions from the health function. He must tell us how much of that cut is in medicare. And we must consider whether he is right that such a cut can be achieved almost exclusively by changing how providers of health care are paid, or whether such a cut must largely be imposed on senior citizens. Thus, inevitably we wind up debating not just "health versus defense" but the whole issue of health delivery systems and their costs.

This problem is aggravated by the fact that the way programmatic issues are tested by Congress is primarily through hearings before, and debates in, specialized authorizing committees and appropriations subcommittees, yet this process is largely lacking as the first budget resoultion is developed. Indeed, implicit in the 1974 act is the judgment that these committees tend to be coopted by the interests as to which they legislate. Thus members of the Agriculture Committees in the House and Senate tend to represent farm areas, and members of the Defense Appropriations Subcommittees tend to represent areas, with defense installations or major defense suppliers. Their staffs tend to see career opportunities in the agenices they oversee or the interest groups that deal with them. In a sense the whole budget process was designed to stop the committee from showering Federal dollars on their constituencies, yet it is in these committees that Congress technical expertise lies.

What should Congress now do about the budget process? Here are some possibilities which we might consider and, with discussion, upon which we might be able to improve:

One, stand pat. There is much to be said for that, at least for the present. The current process, with reconciliation after the first budget resolution, is but three years old. With some additional experience, Congress might still make it work effectively.

Two, repeal it. That would leave Congress no system for overall action on the budget and its economic implications. Many think it would require at least some grant of impoundment power to the

President, or perhaps a constitutional amendment granting the President an item veto on appropriation bills (most States give governors such power). Either step would require Congress to yield power to the President.

Three, pass a balanced budget constitutional amendment, which would have several advantages and disadvantages. But any such amendment, whatever its merits, would require some congressional budget process in order to function.

Four, try to meet the budget process more closely with the traditional congressional process. Instead of the historical method of bringing up each bill with budget implications on its own, perhaps all appropriations bills, all revenue measures, and all bills affecting entitlement programs in a session could be brought together from their respective specialized committees to the full House (and Senate). After each measure had been acted on separately, the measures would then be submitted as a package to each house of Congress to permit reconciling the several measured to a desired overall budget. This would combine specialized committee expertise in developing the bills with the objective of producing an omnibus budget.

In summary, the budget process, which many are assuming to be an established institution on which our economy depends on, is new and subject to glitches. We should be more understanding of the process and its difficulties as we struggle to make it work or find a better way to achieve its goals.

STATEMENT OF HON. JERRY M. PATTERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. PATTERSON. Thank you Chairman Beilenson and members of this vital Budget Process Task Force for allowing me to testify before you today so that I may add my perspective to your examination of ways to improve the congressional budget process.

In brief, I believe two budget reform measures must be approved by the Congress immediately: One, a constitutional amendment requiring a balanced Federal budget; and two, statutory changes to provide the procedural framework and tools to achieve this goal. Let me explain.

I begin with the premise that the budget process itself must be a neutral tool to guide the various players involved in the formulation of the Federal budget. It must be an efficient mechanism which accurately functions as a means for expressing the will of the Congress and the people we represent. Unfortunately, the current procedures fail to do this.

The American public has clearly stated its desire that the Federal Government should live within its means, but as the chorus of voices calling for a balanced budget has increased in volume, it is sadly ironic that the goal of a balanced budget has gotten further from sight, not closer.

It is true that among these voices, there are conflicting signals being sent to us. For example, we've all heard numerous constituents couch their balanced budget cry by saying, "Cut the budget, reduce taxes, but don't cut the program I participate in." Nevertheless, it is up to us as leaders to cut through to the essence of the message sent by our constituents and lead them in designing and securing solutions.

Thus, we in the Congress, as our Nation's leaders, have three tasks before us: One, control the current budget (to the extent practicable and despite present procedural deficiencies); two, enact statutory budget reforms; and three, approve a constitutional amendment to balance the budget.

First, controlling the current budget. I must applaud my colleagues on the Budget and Appropriations Committees for their leadership in guiding the Congress in its formulation of a fiscal year 1983 budget. It has been an agonizing year—as was last year—necessitating deep budget cuts throughout the Federal Government. We have made significant progress—$35 billion in cuts last year and another $13.7 billion in cuts with the passage of the most recent omnibus reconciliation bill. However, more work lies ahead and may pose even more difficult decisions than those we've faced to date, such as further cuts in entitlements and other "uncontrollables," and closer examination of defense and foreign assistance programs, to mention only a few.

Second, statutory reform of the budget process. My criticisms of the current budget process should not be misinterpreted to imply that I believe the Budget Act should be abandoned. To the contrary, I believe the 1974 act has worked remarkably well, considering that it has only been in effect for 7 years. It has been very beneficial in giving the Congress an overall look at the economic environment within which each given budget must function. And it has provided the procedural framework for assessing budget priorities. Nevertheless, I believe it is now time to reexamine the Budget Act in the context of some essential budget process reforms. The reforms I believe are necessary all follow the same basic theme: better information. Without good information, we stand little chance of formulating good budget policy.

One of the most important reforms is to require that we begin our consideration of each Federal budget by working from a document that is balanced. This means that we must make statutory changes to require not only that the House and Senate Budget Committees report budget resolutions in balance, but that the President submit to the Congress balanced budgets.

If the President or the Congress determined that economic distress or national security necessitate an imbalanced budget, then the President and the Budget Committees would be permitted to recommend an alternative budget. However, any deficit budget recommendation would have to be accompanied by a detailed explanation of why a balanced budget is infeasible and a clear identification of the additional programs necessary in light of the economic distress or national security emergency.

The additional information generated as a result of this requirement would make a valuable contribution to the public and congressional dialog vital to the formulation of a Federal budget which reflects the will of our Nation's citizens.

Other proposed changes which I hope the committee will give strong consideration to are:

Uniform economic assumptions—so that we can focus our budget debate on policy issues instead of upon the conflicting numbers;

Capital budget—as practiced by many States in order to clearly identify and possibly separate our long-term capital investments;

Credit budget—as one of the fastest growing components of our budget, it is important that we clearly identify the extent of our direct loan and loan guarantee commitments so that we can better monitor their use as well as assess them in light of other Federal priorities and their possible impact on national credit markets.

Spending as a percent of GNP—we must make steps to return the size of the Government's budget to a rational scale, possibly 20 percent of GNP.

Some people argue that statutory reform is useless and jump immediately to the conclusion that only a constitutional requirement will bring about budget control. Such an argument is shortsighted and overly simplistic. I believe that statutory reform and a constitutional requirement complement each other. Let me be specific.

It is true that previous statutory budget control laws have not worked. Although the Budget Act of 1974—as I said before—has worked remarkably well considering. But, it has not worked well enough. It has simply not brought about the budget control that our economy needs and that our citizens want. The Budget Act should be preserved, but in a strengthened and improved form.

Another example of statutory budget control requirements is Public Law 95-435, the Bretton Woods Agreements Act—Financing Facility. Tagged onto this act is language which states: "Section 7. Beginning with fiscal year 1981, the total budget outlays of the Federal Government shall not exceed its receipts." Honestly, what good is this language if the goal is not accompanied by the tools to accomplish it? The answer is simply that this requirement is worthless.

It is for this reason that I support the combination of a simple constitutional requirement accompanied by the necessary statutory tools to accomplish it.

The need for these statutory changes is not only due to the essential mechanism they would provide in meeting a constitutional requirement, but because of other advantages as well. For example, a statutory requirement would take effect immediately, whereas a constitutional requirement would not take effect for years—until the required 38 States had ratified the proposed amendment. We need budget control now, not 7 or so years from now. Additionally, certain budget control provisions are more appropriate as statute than as constitutional language—especially those terms which reflect the current state of the art in the field of economics, a still imperfect science.

Third, constitutional amendment to balance the budget. I believe that the constitution should be reserved for statements of only those fundamental and enduring principles that are essential to guiding our Nation's citizens and its Government. Requiring that the Government live within its means unless a supermajority of its Representatives approves a deficit is one such enduring principle. Placing the clear and simple statement of principal in the constitution while providing the procedures, requirements, guidelines, and criteria in the statute is the best course of action for the Congress to take.

I would urge my colleagues, however, to use extreme caution in recommending constitutional language. First, such language must provide the flexibility to endure dramatic changes in our society and in the sciences involved in the budget process, particularly economics. Second, it must be designed in such a way as to make it extremely difficult—but possible—to enact a deficit budget. Third, it must not be so restrictive that it would thwart the Congress in meeting our Federal Government's commitment to defense and social insurance. And fourth and foremost, it must provide the teeth to make the statutory requirements work efficiently in bringing about the budget control that our country so urgently needs.

STATEMENT OF HON. WILLIAM F. CLINGER, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Clinger. It is my pleasure to come before the task force on the budget process to testify with Representative Bob Edgar on capital budgeting. In particular, we will be discussing legislation that we have introduced, H.R. 6591, the Federal Capital Investment Budget Act of 1982. At the conclusion of my testimony, I would like to make a unanimous consent request to have the bill, a section-by-section analysis and a background report by the House Wednesday group printed in the record.

Capital budgeting is an idea whose time has come. For years, we have allowed our public infrastructure to decay because of a lack of coordination in our expenditure policies and pork barrel allocations of our national resources.

Basically, the Nation's public facilities, which includes highways, bridges, ports, waterways, airports, and vast array of public facilities are wearing out faster than we are replacing them or than we are repairing them. We have 42,500 miles of Interstate Highway System that has been constructed over the last 25 years. Eight thousand of those miles are beyond their engineered life at this point and must be rebuilt very soon if they are to be able to be used at all. And about 2,000 miles more per year fall into this category of poor and nearly unusable. Beyond that, 13 percent of the bridges in the Interstate System are beyond their engineered life and need major replacement or repair.

Other than that, we have about 200,000 bridges in this country which play a vital role in transporting our commerce across this country. It is roughly estimated that $41 billion is going to be required to bring those bridges back to a useful state.

Perhaps most significant is the fact that about one-third to one-half of the communities of this country, according to a survey by the Department of Commerce, are at capacity as far as their sewage treatment facilities are concerned. What does this mean? Well, it means that in any economic recovery scenario, those communities are limited and foreclosed from participation in an economic recovery because they can add nothing to their systems. They can't add new industry or new households because they are at capacity as far as those systems are concerned.

Water resources development is another critical area. The West and the Southwest are going to experience increasingly urgent problems in capturing adequate water supplies to support the kind of growth they're experiencing at the present time. In the High Plains area, they're depleting that aquifer much more rapidly than it's being replenished and at the same time they face a tremendous influx of new residents.

The cost of restoring these facilities is staggering. Without a proper inventory of our public facilities, we can only estimate that it's going to cost us about $2½ to $3 trillion during the rest of the eighties just to maintain existing levels of service on public facilities. That's not adding anything, and that's not improving them. It's just to maintain existing facilities.

While we have witnessed this deterioration, however, Federal, State, and local governments have reduced their investments in public capital; by about 30 percent from 1965 to 1980. In 1965, we were spending about 4.1 percent of our entire gross national product on public facility investment. That has dropped to about 1.7 percent in 1980.

H.R. 6591 addresses this deplorable situation in a different approach from past proposals. The bill amends the Budget and Accounting Act, 1921, the statutory authority by which the President makes his annual budget submission to Congress. It also amends the Public Works and Economic Development Act by requiring an inventory and needs study of our public infrastructure. The resulting document would greatly expand our past, present, and future understanding of our public civilian facilities investments. The usefulness of this information is in the enhancement of our understanding of the short-term and long-term ramifications of annual infrastructure funding decisions.

I'd like to make it clear that the bill does not deal with the congressional budget process or a balanced budget amendment. Let me underscore the fact that H.R. 6591 does not attempt to separate a capital budget from the unified budget. The capital budget envisioned in our bill would serve only as a budget reporting document that would not mandate pouring more money into public works programs but would simply clarify different types of expenditures. This bill can stand alone or easily complement the efforts of the task force if such a proposal should be actively considered in the deliberations of the Rules Committee.

The process envisioned in H.R. 6591 really begins with an inventory and needs study of our past. The study would tell us where our infrastructure facilities are located by State and an assessment of their condition. We know that roads, bridges, and water systems are in need of repair, rehabilitation and replacement but we have no firm estimates on the total scope of the problem.

From this starting point, let me highlight some of the key features of H.R. 6591. First, the bill directs the executive branch to prepare a special analysis of capital budget authorizations and appropriations over 1, 5- and 10-year periods. The type of executive branch information that we receive today lacks any current and future projections of capital investment by construction, rehabilitation, operation, and maintenance expenditures.

Special analysis D—which is at present the Federal Government's only capital budgeting tool—is compiled after agency officials make their budget decisions and therefore useless for planning capital investments. GAO notes that special analysis D is not designed to be and accordingly is not a management tool with which policymakers can analyze Federal capital investment practices.

Currently, capital investment data is lumped into one category. By separating the data into four logical subcategories, we can determine the administration's funding priorities on new and existing infrastructure facilities.

Second, authorization and appropriation levels on infrastructure facilities would be separated by each function, category, agency and program of the Federal Government. More than anything else in the bill, this provision establishes a necessary sorting out of responsibilities within the plethora of Federal actions to be taken on infrastructure resources.

H.R. 6591 seeks to identify the parameters of Federal Government involvement. The capital budget will assist decisionmakers in efficiently allocating scarce resources. Moreover, the bill fits nicely into the New Federalism concept because State and local governments would know in advance the extent of Federal involvement in planning future outlays.

These ideas have been explored in the past. The adoption of a capital budget by the Federal Government was recommended by the Hoover Commission in 1949 and the Committee for Economic Development in 1959. It has had widespread support among many legislators, such as our former colleague Al Ulmann and the late Sen. Hubert Humphrey, and is used by virtually all major corporations and most States in all regions of the country with different budgetary needs. Sweden, Belgium, France, Germany, Denmark, and Great Britain have used capital budgeting for years and Canada has used this system since confederation in 1867.

To the best of my knowledge, the central objection to capital budgeting today comes from those who oppose any special treatment given to civilian public facilities in the budget process. For them, a capital budget would create a fence around our public civilian facilities spending. Both Representative Edgar and I did not draft this legislation with that intent. We believe that it is in the Nation's best interest, especially during times of fiscal constraint, to rationally prioritize our spending decisions to address the country's greatest needs. We can no longer afford to base our allocations of scarce resources on wasteful or dubious projects without some clear blueprint and guidance with which to make these crucial decisions.

Thank you, Mr. Chairman, for allowing us the time in your busy agenda to testify on this exciting concept.

[The following material was submitted for the record by Congressman Clinger of Pennsylvania.]

I

97TH CONGRESS
2D SESSION

H. R. 6591

To amend the Budget and Accounting Act, 1921, to require the President's budget to separately identify and summarize the capital investment expenditures of the United States, to amend the Public Works and Economic Development Act of 1965 to require the Secretary of Commerce to conduct an inventory and assessment of the Nation's public facilities, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 15, 1982

Mr. CLINGER (for himself, Mr. EDGAR, Mr. BUTLER, Mr. OBERSTAR, Mr. FISH, Mrs. KENNELLY, Mr. FRENZEL, Mr. LUNDINE, Mr. BEREUTER, Mr. LEACH of Iowa, Mr. LIVINGSTON, and Mr. PRITCHARD) introduced the following bill; which was referred jointly to the Committees on Government Operations and Public Works and Transportation

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A BILL

To amend the Budget and Accounting Act, 1921, to require the President's budget to separately identify and summarize the capital investment expenditures of the United States, to amend the Public Works and Economic Development Act of 1965 to require the Secretary of Commerce to conduct an inventory and assessment of the Nation's public facilities, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Federal Capital Investment Budget Act of 1982".

PURPOSES

SEC. 2. The purposes of this Act are—

(1) to provide basic information of the capital infrastructure of the Nation in an organized and rational manner;

(2) to identify serious deficiencies in the public investments that are deteriorating and beyond repair and to identify those that are constraining national growth;

(3) to allocate limited funding in public infrastructure in a cost-effective and orderly manner by allowing the establishment of reasonable priorities in capital investment;

(4) to distinguish between Federal, State, and local responsibilities in order to reduce fragmentation and duplication of effort; and

(5) to improve legislative oversight over public capital investments.

FEDERAL CAPITAL INVESTMENT BUDGET

SEC. 3. Section 201 of the Budget and Accounting Act, 1921 (31 U.S.C. 11), is amended by adding at the end thereof the following new subsection:

"(k)(1) The President shall include with each Budget submitted under subsection (a) on or after January 1, 1983, a special analysis, for the ensuing fiscal year, which shall identify for each function, category, agency, and program of appropriation and expenditure in the Budget the amount of appropriations and expenditures which may be classified as public infrastructure investments, and shall contain appropriate summaries of the total amount of such appropriations and expenditures. In addition, the special analysis under this paragraph shall contain—

"(A) an estimate of current aggregate public infrastructure investments and those required to provide specific levels of public infrastructure capital services over periods of one, five, and ten years;

"(B) an estimate of current aggregate operation and maintenance investments and those required to provide specific levels of public infrastructure capital service over periods of one, five, and ten years;

"(C) an identification of potential and alternative sources of financing and capital investment constraints at the State and local level of government;

"(D) an identification of Federal public infrastructure investment priorities;

"(E) an identification explaining the relationship of the proposed annual capital expenditures contained in the proposed Budget to the Nation's longer term needs and the Federal Government's longer term public capital infrastructure strategies; and

"(F) a ten-year projection on anticipated capital and related operation expenditures.

"(2) In addition to the information required by paragraph (1), the President shall include with each Budget submitted under subsection (a) on or after January 1, 1984, a capital investment budget which shall identify by State (considering the District of Columbia and each insular area as a State) the amount of appropriations and expenditures which may be classified as public infrastructure investments, and shall contain—

"(A) an estimate of separate construction, rehabilitation, operation, and maintenance investments and those required to provide specific levels of public infrastructure capital service over periods of one, five, and ten years;

"(B) the establishment of a uniform set of standards of service to measure the specific level of service provided by specific types of public infrastructure capital;

"(C) an estimate of the costs, over discrete periods of time, to continue specific present, higher, and lower levels of service;

"(D) an assessment of the levels of service being produced by public infrastructure capital; and

"(E) a ten-year projection of appropriate amounts for the capital investment budget.

"(3) For the purposes of this subsection, any appropriation or expenditure shall be classified as a public infrastructure investment to the extent that funds so appropriated or expended will be used for the construction, rehabilitation, or repair of any civilian public facility in the United States, including—

"(A) education facilities (public schools and public libraries);

"(B) energy facilities (direct power energy generation facilities and energy supply facilities);

"(C) fire safety (facilities and equipment);

"(D) health (clinics, hospitals, emergency vehicles and specialized equipment);

"(E) justice (law enforcement facilities, jails and prisons);

"(F) recreation (facilities);

"(G) solid waste (collection and disposal facilities and equipment);

"(H) telecommunications (radio, television, and disaster preparedness facilities and equipment);

"(I) transportation (highways, roads, bridges, rail, port, river, inland water, airport, pipeline, and mass transit facilities and equipment);

"(J) water supply (storage, transport, treatment and distribution facilities);

"(K) waste water disposal (disposal treatment and transport facilities); and

"(L) Federal buildings and grounds.

"(4) For the purposes of this subsection—

"(A) the term 'construction' means the erection of new structures and the acquisition and installation of initial equipment therefor;

"(B) the term 'rehabilitation' means the alteration of an existing structure and the acquisition and installation of initial equipment or modernization or replacement of such equipment; and

"(C) the term 'repair' means the maintenance and operation activities on an existing structure to ensure the continuing functioning of the structure.".

SEC. 4. Title VII of the Public Works and Economic Development Act of 1965 is amended by adding at the end thereof the following new section:

"INVENTORY AND ASSESSMENT OF PUBLIC FACILITIES

"SEC. 717. (a) The Secretary, acting through the Economic Development Administration, shall prepare an inventory of civilian public facilities in the United States (including those civilian public facilities described in section 201(k)(3) of the Budget and Accounting Act, 1921) and an assessment of the physical condition of such public facilities.

"(b) The Secretary shall make a report of the inventory and assessment required by subsection (a) to Congress not later than January 1, 1984. The Secretary shall update such report and transmit a copy thereof to Congress annually thereafter.

"(c) The Secretary may secure directly from any department or agency of the United States information necessary to enable the Secretary to carry out this section. Upon request of the Secretary, the head of such department or agency shall furnish such information to the Secretary.".

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SECTION-BY-SECTION ANALYSIS OF THE FEDERAL CAPITAL INVESTMENT BUDGET ACT OF 1982

This bill would amend the Budget and Accounting Act of 1921 to require the President's budget separately to identify and summarize the capital investment expenditures of the United States, to amend the Public Works and Economic Development Act of 1965 to require the Secretary of Commerce to conduct an inventory and assessment of the nation's public facilities, and for other purposes. This bill would not affect current authorization and appropriations procedures for capital investment expenditures and would not affect procedures established under the Congressional Budget and Impoundment Control Act of 1974.

Section 1. Short Title

Section 1 states that the Act may be cited as the "Federal Capital Investment Budget Act of 1982."

Section 2. Purposes

Section 2 defines the purposes of the Act-

(1) to provide basic information of the capital infrastructure of the nation in an organized and rational manner;

(2) to identify serious deficiencies in public investments that are deteriorating and beyond repair and to identify those that are constraining national growth;

(3) to allocate limited funding in public infrastructure in a cost-effective and orderly manner by allowing the establishment of reasonable priorities in capital investments;

(4) to distinguish between Federal, State, and local responsibilities to reduce fragmentation and duplication of effort; and

(5) to improve legislative oversight over public capital investments.

Section 3. Federal Capital Investment Budget

Section 3 would amend section 201 of the Budget and Accounting Act of 1921 (31 U.S.C. section 11) by adding at the end a new subsection (k). This subsection would require the President to include with each budget submitted on or after January 1, 1983, a special analysis for the ensuing fiscal year. This special analysis shall identify for each function, category, agency, and program of appropriation and expenditure in the budget the amount of appropriations and expenditures which may be classified as public infrastructure investments, and shall contain appropriate summaries of the total amount of such appropriations and expenditures. The special analysis shall also contain—

(A) an estimate of current aggregate public infrastructure investments and those required to provide specific levels of public infrastructure capital services over periods of one, five, and ten years;

(B) an estimate of current aggregate operation and maintenance investments and those required to provide specific levels of public infrastructure capital service over periods of one, five, and ten years;

(C) an identification of potential and alternative sources of financing and capital investment constraints on the State and local level of government;

(D) an identification of Federal public infrastructure investment priorities;

(E) an identification explaining the relationship of the proposed annual capital expenditures contained in the proposed budget of the nation's longer term needs and the federal government's longer term public capital infrastructure strategies; and

(F) a ten-year projection on anticipated capital and related operation expenditures.

Subsection (2) of section 3 provides that in addition to the information required by subsection (1), the President shall include with each budget submitted on or after January 1, 1984, a capital investment budget which shall identify by State (considering the District of Columbia and each insular area as a State) the amount of appropriations and expenditures which may be classified as public infrastructure investments, and shall contain—

(A) an estimate of separate construction, rehabilitation, operation, and maintenance investments and those required to provide specific levels of public infrastructure capital service over periods of one, five, and ten years;

(B) the establishment of a uniform set of standards of service to measure the specific level of service provided by specific types of public infrastructure capital;

(C) an estimate of the costs, over discrete periods of time, to continue specific present, higher, and lower levels of service;

(D) an assessment of the levels of service being produced by public infrastructure capital; and

(E) a ten-year projection of appropriate amounts for the capital investment budget.

Subsection (3) of section 3 provides that for purposes of subsection (k) of the Budget and Accounting Act of 1921 (31 U.S.C. section 11), any appropriation or expenditure shall be classified as a public infrastructure investment to the extent that funds so appropriated or expended will be used for the construction, rehabilitation, or repair of any civilian public facility in the United States, including—

(A) education facilities (public schools and public libraries);

(B) energy facilities (direct power energy generation facilities and energy supply facilities);

(C) fire safety (facilities and equipment);

(D) health (clinics, hospitals, emergency vehicles and specialized equipment);

(E) justice (law enforcement facilities, jails and prisons);

(F) recreation (facilities);

(G) solid waste (collection and disposal facilities and equipment);

(H) telecommunications (radio, television, and disaster preparedness facilities and equipment);

(I) transportation (highways, roads, bridges, rail, port, river, inland water, airport, pipeline and mass transit facilities and equipment);

(J) water supply (storage, transport, treatment and distribution facilities);

(K) waste water disposal (disposal treatment and transport facilities); and

(L) Federal buildings and grounds.

Subsection (4) of section 3 provides that for purposes of subsection (k) of the Budget and Accounting Act of 1921 (31 U.S.C. section 11)—

(A) the term "construction" means the erection of new structures and the acquisition and installation of initial equipment therefor;

(B) the term "rehabilitation" means the alteration of an existing structure and the acquisition and installation of initial equipment or modernization or replacement of such equipment; and

(C) the term "repair" means the maintenance and operation activities on an existing structure to ensure the continuing functioning of the structure.

Section 4. Inventory and Assessment of Public Facilities

Section 4 of the bill amends title VII of the Public Works and Economic Development Act of 1965 (42 U.S.C. sections 3211, et seq.) by adding at the end the following new section:

"Inventory and Assessment of Public Facilities"

Section 717(a) requires the Secretary of Commerce, acting through the Economic Development Administration, to prepare an inventory of civilian public facilities in the United States (including those civilian public facilities described in section 201(k)(3) of the Budget and Accounting Act of 1921) and an assessment of the physical condition of such public facilities.

Section 717(b) requires the Secretary to make a report of the inventory and assessment required by subsection (a) to Congress not later than January 1, 1984. The Secretary is required to update such report and transmit a copy to Congress annually thereafter.

Section 717(c) provides that the Secretary may secure directly from any department or agency of the United States information necessary to enable the Secretary to carry out this section. Upon request of the Secretary, the head department or agency shall furnish such information to the Secretary.

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WG SPECIAL REPORT
ON
U.S. ECONOMIC INFRASTRUCTURE

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Rebuilding the nation's public infrastructure promises to be the single most expensive government challenge in the 1980s and 1990s. For the past two decades there has been massive underinvestment in America's stock of private and public capital. While the importance of maintaining and expanding the nation's private capital stock has been recognized and is being addressed, the importance of maintaining the nation's public capital stock remains virtually ignored.

In substantial measure, the underinvestment and deterioration in the nation's vital public infrastructure can be directly traced to disordered federal public works policymaking and program administration practices. The federal government provides one-half of the nation's public works funds, yet does this without taking an inventory of the nation's public facilities and without assessing the conditions of those facilities.

As the U.S. faces the remainder of the decade, $2.5 to $3 trillion will be required to maintain existing levels of service on public facilities. At present expenditure levels, less than a third of these will be met. Clearly, difficult choices are in store for America's public leaders, and fundamental changes are needed to bring long term direction and coherence to the nation's public works activities.

Overview

America's basic public facilities are wearing out faster than they can be repaired and replaced. Some alarming facts and vital points deserve consideration in the public infrastructure debate:

- Measured in constant dollars, America's investment in public capital declined by 30% from 1965 to 1980. In 1965, 4.1% of the nation's GNP was spent on public works, as compared to just 1.7% in 1980.
- Eight thousand miles of the Interstate Highway System and 13% of its bridges are now beyond their engineered life and must be rebuilt. Two thousand miles of this system deteriorate and require reconstruction each year.
- One-half of the nation's communities have wastewater treatment systems that are operating at full capacity and cannot support further economic expansion.
- The old "Dustbowl" region of the U.S., which now accounts for 23% of the nation's irrigated farmland and produces over 40% of its processed beef, is in danger of depleting its water sources. New sources must be developed by the end of the decade to avoid declining yields of important export crops.

- As many as 3,000 of the country's 3,500 jails may have to be totally rebuilt or substantially rehabilitated; in most cases this construction is court-ordered and takes precedence over other public works projects.
- At least 100 separate federal agencies, 50 state governments, 3,042 counties, 35,000 general purpose local governments, and 15,000 school districts are engaged in public works planning and construction. Enormous fragmentation of public works decision-making is the inevitable result.
- Although virtually all major corporations, all state governments, and most local governments use capital budgets in basic planning, the Federal government has never produced a capital budget to distinguish investment-type programs from current expenditures.

Continued neglect of basic public capital needs threatens to impede economic growth in all parts of the nation. While older sections of the country require investment to repair and replace existing facilities, the South and West require new facilities to support economic expansion. Economic growth can be more easily fostered through a strong public infrastructure, and a national framework within which to make public capital investment decisions is a first step toward improving that infrastructure.

History

Public works investment in the U.S. has traditionally reflected changing policymaking attitudes and economic necessities. For example, the need to open the nation to settlement in the early 1800s focused public works activities on national development. More recently, a growing array of social programs in the 1960s and 1970s created tight budgets and a declining emphasis on public works investment. Today, the conflict in public works is between budgetary restraint and the demands of a growing economy.

EARLY ECONOMIC DEVELOPMENT

The absence of an infrastructure sufficient to sustain private enterprise was of particular concern to the nation's early policymakers. A comprehensive transportation system was advanced in 1808 by Albert Gallatin, Secretary of the Treasury. His Report on Roads and Canals proposed expenditures of $20 million and was aimed at projects thought to be too large for private enterprise. Other advocates of federal public works proposed similar projects for communications, railroads, waterways, and other public facilities.

States, and to a lesser extent cities, played an important role in public works activities during this period. By employing military engineers and providing public works funds, state and local governments built roads, canals, bridges, and railroads. State and local governments also undertook roadbuilding to compete with each other for valuable trade. For example, between 1810 and

1830, New York constructed 4,500 miles of turnpike at a cost of $9 million, Pennsylvania built 2,500 miles of turnpike at a cost of $8.8 million, and in eleven New England and Mid-Atlantic states, a total of $27.8 million was spent to build over 11,000 miles of turnpike.

Although many states sought to expand their infrastructure during this period, the economic downturn of 1839-1845 made it difficult for them to continue massive public works investments. Frequently there were little or no tax revenues to finance proposed projects. In addition, a new "laissez-faire" attitude developed in the private sector. Many private businesses were no longer young and weak, and were able to raise capital and make a profit without additional state government assistance. They also benefited significantly from the public infrastructure put in place by earlier government spending.

URBAN GROWTH

Great leaps in population growth and increasing urbanization during the 1800s also placed extraordinary demands on the public infrastructure for housing, police and fire protection, sanitation, water lines and urban transportation.

Municipal governments, as a first step, addressed the problem of inadequate water systems. Philadelphia was the first city to establish a municipal water system, pumping water from the Schuylkill River through log pipes. The system was gradually expanded, and by 1815 authorities had spent $600,000 on its construction and operation. New York, Boston, Baltimore, Chicago, and other large and growing cities also adopted municipal water systems.

State and municipal governments before and after the turn of the century also earmarked portions of their growing public works budgets for urban transportation. The largest chunk was spent on streets and bridges. Most cities appropriated fully 1/3 of their public works budgets for these projects. The famous Brooklyn Bridge was completed during this period, after 13 years of joint efforts between private firms and the City of New York. Municipal governments also ventured into electrical generating facilities, piers and wharfs to outfit ports for public use, and public libraries. By 1907, Boston opened the nation's first public subway system, at a cost of $15 million.

THE AUTO BOOM

The emergence of the automobile during the 1920s heightened the significance of the nation's system of roads. Although almost 1.5 million miles of roads were built between 1850 and 1900, a survey in 1904 showed that only a fraction were paved. The auto boom changed all that. Between 1912 and 1930, 25 million additional automobiles were registered in the U.S. As a result, from 1920 to 1926, private investment in roads increased by 127%, and public construction rose by 140%. State and local public works investments became dominated by road construction.

The road construction boom was financed largely by property taxes and user fees. Borrowing for road building was rare, although state and local governments did finance other construction projects through borrowing. In 1927, government borrowing amounted to 46% of publicly-funded new construction. In addition, public expenditures for road construction during the 1920s skyrocketed by 277%, accounting for almost 40% of all public construction. Approximately 461,000 miles of road were paved, more than doubling the number of surfaced roadway miles. States and localities funded this construction with limited assistance from the federal government. User fees administered by the states accounted for 60% of highway revenues by 1929.

THE NEW DEAL

The Great Depression and the onslaught of unemployment for millions of Americans led policymakers to use public works investments as a tool for economic relief. This policy was not new, having been used in the mid and late-1800s in response to slow economic periods. As a result, federal construction of public works, which accounted for 11% of total public construction in 1930, totaled 67% of all public construction by 1936. In fact, 28% of the 1936 federal budget was spent on public works construction, with most of the funds appropriated for road construction, conservation, and water works.

Conservation and development projects accounted for an ever-increasing share of new public works throughout the 1930s. For example, the Army Corps of Engineers spent $1.9 billion on water development alone between 1931 and 1940. The Public Works Administration also expended impressive sums, especially for sewage and water works. In 1936-37 alone, it paid for more than half of the nation's total costs for sewage and water works projects. These efforts proved to be extremely important. Private sector investments in water works were almost negligible during the 1930s, and these projects clearly would not have been undertaken without federal assistance. Some of the more spectacular efforts were the Grand Coulee and Boulder Dams, which changed the course of economic development for vast regions.

The New Deal's public works efforts, nonetheless, produced mixed results. On a region-by-region and project-by-project basis, many important economic gains were achieved. For example, the Tennessee Valley Authority supplied private business, commerce, and residents of the region with inexpensive electric power. On the national level, however, these programs had limited impact. For example, aggregate output and employment during the 1930s remained relatively unaffected by these programs. In addition, federal budget deficits increased significantly, but promoted only small percentage gains in aggregate demand.

WARTIME EXPANSION

World War II inevitably aroused the American economy. But it was the government, not private enterprise, which constructed new plants and manufactured new equipment. Instead of building roads and improving harbors, the federal government, through the War Production Board, invested in manufacturing facilities. Federal expenditures in this area amounted to $17 billion between 1940 and 1945. The nation's industrial capacity grew by 50% during these years, and the government paid for more than half of it.

The new facilities, although publicly-owned, were run by private companies. By 1944 the government had financed $8.3 billion worth of plant and equipment among 100 large and privately-owned companies. After the war, most of the facilities were purchased by private companies at an average price of just 33% of the original construction cost.

Traditional public works activities, such as bridges, streets, and water works, declined substantially during the war years. A contraction equal to 3.3 years of activity at 1940 levels occurred in these types of public works. Even private efforts in these areas suffered, due to a national emphasis on wartime production. In contrast, construction of industrial facilities from 1940-1945 increased at an amount equal to 9 years of activity at 1940 levels.

CONTEMPORARY PUBLIC WORKS

After the war, the focus of public works once again changed. Federal spending, previously earmarked for war material, was now allocated for conservation and water resource development, both of which had been neglected during the war. Funding levels were actually lower in the postwar period than they were in the 1930s, but soon rose throughout the 1950s to keep pace with urbanization and population growth.

State and local governments also responded during this period, providing funds for education, water works, urban mass transit, and highways. During the 1950s, total expenditures for school construction increased by 72% over expenditure levels of the 1940s. Spending on water and sewer works increased by 46%. Construction on the Interstate Highway System began during the 1950s, and in 1960 alone the federal government paid almost 70% of the cost of completing 32,000 miles of interstate.

The advent of highways to link cities encouraged the growth of suburbs in the 1950s and 1960s. As a result, many cities suffered population losses, and public facilities became neglected. At the same time, sewers, water works, and streets were increasingly demanded in the suburbs. Nonetheless, the nation's public capital investments fell from $33.7 billion in 1965 to less than $24 billion in 1980, a 30% decline. Public works investments dropped from $174 per person in 1965 to less than $110 per person in 1980, a 36% decline, and shrank from 3.6% of GNP in 1965 to less than 1.7% in 1980, a 54% decline.

As investment in public works continued to decline, the business sector began to attach a greater premium onto the quality and availability of the public infrastructure. A number of studies noted that private sector investment decisions were strongly influenced by the location and availability of reliable public facilities. A Census Bureau survey conducted in the mid-1970s for the Economic Development Administration concluded that the availability of public works facilities was either of critical or significant importance to location and investment decisions. Moreover, public facilities were almost always a more important locational consideration than were either local tax incentives or industrial revenue bond financing.

During the last several decades, public capital expenditures were also used in the hope of stabilizing the ups and downs of the economy. Specifically, three countercyclical public works programs were enacted by Congress -- the $1.9 billion Accelerated Public Works Program (APW) in 1961-62; the $130 million Public Works Impact Program (PWIP) in 1972-73; and the $6 billion Local Public Works Impact Program (LPW) in 1976-77.

Studies of the latter programs concluded, however, that they fell far short of stimulating employment for the structurally unemployed in distressed areas. Yet, available evidence also suggests that these shortcomings lay primarily in the timing and administration of their expenditures and in the narrowness of program goals. Specifically, the temporary countercyclical LPW program of 1976-77 did little to relieve the 1974-77 recession until late in 1976, and over 80% of the employment generated by the LPW projects took place in the recovery phase of the cycle. Lags in benefits occurred because of delays in securing passage of the legislation throughout 1974 and 1975. For two years after the onset of the 1974 recession, and until the summer of 1976, the use of countercyclical public works for economic stabilization continued to be rejected in favor of traditional fiscal and monetary measures.

Current Situation

DETERIORATING INFRASTRUCTURE

Inadequate and deteriorating public facilities are weakening America's basic infrastructure. State and local governments throughout the country are faced with enormous expenditures just to maintain present levels of service from existing facilities. Specifically:

- New York City must invest over $40 billion within the next nine years to repair, service, and rebuild basic public facilities. These include 1,000 bridges, 6,200 miles of paved streets, 6,000 miles of water lines, and 4,500 buses.
- Cleveland must replace or renovate its publicly-owned water system, repair city bridges and reconstruct flood control facilities at a total cost of $1 billion.
- Rapidly-expanding Dallas must raise $700 million for investment in water and sewerage treatment systems in the next nine years and another $109 million to repair deteriorating city streets.

America's coal port facilities cannot expeditiously handle large cargo ships, and delays in loading and unloading of one month or longer are common. If the Commerce Department's forecast of a doubling of international trade by the year 2000 is realized, governments will need to spend about $1 billion per year for 10 years to build three or four coal piers and to step up dredging operations. By 2000, some 111 new container berths will have to be built, while only 137 exist now.

Despite these major problems, some port cities are forging ahead with harbor renewal and expansion. Galveston, Texas has embarked on an ambitious ten-year plan to deepen and widen its port, to be paid for by City of Galveston revenue bonds. Baltimore recently had funds approved by the Maryland General Assembly to begin its harbor improvement work.

WASTE

Massive waste and misplaced priorities have found their way into the public works funding process. The primary source of waste is unnecessary delay. By the time a project is approved, funds are appropriated, and construction actually begins, costs have increased significantly, largely due to inflation. Even the better managed federal agencies now experience delays of one year or more between the time project funds are appropriated, bids are made, and construction begins. Many agencies take much longer. The pipeline of funded but unconstructed projects is large -- at least in the range of $80-$100 billion. At current inflationary levels, over $1 billion in construction purchasing power is lost each month because of unnecessary delay.

Misplaced priorities is a problem found at all levels of public works activities. Rather than rehabilitating existing facilities, public works projects are all too often geared toward new construction. New construction is costlier and precludes restoration of older but useful facilities. For example, many types of sewer lines can be cleaned, relined, and made usable for another hundred years at a third to half the cost of building a new set of lines. The Brooklyn Bridge, which was completed in 1882 and whose replacement would be financially prohibitive for New York City, can last well into the 21st century or longer if given relatively inexpensive basic maintenance.

FRAUD

Public works fraud has risen dramatically in recent years. In 1980, 219 state and local government officials were convicted in federal courts for criminal abuse of public funds -- a figure almost 10 times greater than 1970 levels.

Recent investigations in Oklahoma and Texas have uncovered fraud in staggering numbers. In Oklahoma alone, more than 100 current and former county officials have been convicted in federal courts or have pleaded guilty. Abuse of public money in these and other cases is often in the form of kickbacks paid to county officials for lucrative government construction contracts or equipment sales.

LIMITED FUNDS

The current era of fiscal austerity and budget reductions is making it even more difficult to finance public works activities. Public works investment requirements for the 1980s will be enormous. For example, the costs of rehabilitation and new construction necessary to maintain even existing levels of service on non-urban highways will likely exceed $800 billion in the 1980s. This is more than all public works expenditures made by all levels of government in the decade of the 1970s.

Generating funds for the nation's public works will require better use of existing financing techniques as well as the creation of new funding approaches. Expanded application of user charges for public facilities, which in part has been proposed in the Reagan Administration's FY 1983 budget, may be one approach. In addition, the "New Federalism" concept may be used to redefine state and local public works responsibilities, with an emphasis on revitalizing the financial capacity of local governments. Increased use of private sector resources for public works activities may also be explored.

FRAGMENTED DECISION-MAKING

A complex and politically sensitive issue is the allocation of public works responsibilities within the federal system. Today, federal, state, and local public works authorities are confusingly intertwined. This has resulted from the large number of government units that have public works responsibilities. The federal, state, local, county, and school district agencies amount to thousands of governmental entities engaged in public works decision-making.

For example, at least six separate federal agencies, such as EPA, HUD, EDA, and the FHA control programs for water and wastewater treatment funds. Yet, no coordinated policy exists among these agencies, and the funding decisions of one agency remain independent of those issued by other agencies. Also, some federal aid decisions, such as those within HUD's Community Development Block Grant Program, are made in consultation with local communities, bypassing state legislatures. Finally, state and local governments are not encouraged to develop long-term strategies for rebuilding the public infrastructure because federal funds are largely appropriated on an annual and not multi-year basis.

The existing vertical and horizontal relationships among the diverse groups creates fragmentation and a number of bureaucratic distortions in the operation of public works programs. Elected officials in government lose accountability, resources are allocated independently rather than pooled among several agencies, and specific program procedures often conflict. These decentralized responsibilities also result in duplication of work and contradictory or redundant activities. In the absence of clearly documented needs and well articulated priorities, limited public works funds are too often used for "pork" politics, and favor short-term solutions to long-term problems.

INADEQUATE INFORMATION

Basic information about the nation's public works is quite limited. For example:

- No inventory of the nation's capital stock exists, and only the most limited analyses have been done of the condition of existing facilities. There is no estimate of future capital needs, future costs, or the ability of local governments to maintain public facilities in the years ahead.
- No standardized replacement/repair analysis exists. This can be used to systematically determine when it is more economical to repair or to replace a facility.
- The current status of projects which have been approved and for which funds have been appropriated is not monitored in any systematic fashion. As a result, the pipeline of appropriated, but unconstructed, public works projects is able to expand with little notice by policymakers or administrators.

Only the most limited information exists about various techniques to extend the life of present facilities, or about conservation and cost-cutting mechanisms. Finally, no specific recommendations for improvement can be made, since no system exists for evaluating the overall performance of public works programs.

DISORGANIZED CAPITAL BUDGETING

Each year the federal government provides one-half of the nation's funds for public works, either through direct construction financing or grant-in-aid programs. It does this without taking an inventory of the nation's public facilities and without assessing the conditions of those facilities. The federal government also does not establish standards for the services to be provided by public facilities, nor does it plot any particular investment strategy or set any investment priorities before deciding how to allocate public works dollars. In addition, federal, state, and local governments do not formulate a basic agreement to determine who is responsible for how much of the financing, construction, and operation of public works projects. Public works expenditures are also made with little or no Executive or Congressional branch oversight.

This procedure is in direct contrast to the approach used in virtually every other policy area that involves federal expenditures. The GAO notes in its study, Federal Capital Budgeting: A Collection of Haphazard Practices, that nearly every other major federal activity has a specific entity responsible for guiding its direction and for assessing its priorities. The Office of Science and Technology Policy (OSTP), which coordinates federal research and development expenditures, is one example. OSTP provides policy coordination for 31 separate federal agencies that have research and development responsibilities. As a result, although R&D is not a separate budget item, individual agencies prepare the R&D component of their budgets in the context of an overall, long-term policy and strategy reviewed by OSTP. This insures that larger national science policy goals are pursued in an orderly manner.

Current Legislative Activity

Federal public works funding is a complex and fragmented process. Legislation that reauthorizes funds for particular projects, programs, or agencies can include language that restricts fund use for detailed areas of a project, limits the amount of funds available in the future, requires planning or analyses before funds are appropriated, or mandates formulas dictating percentage shares of funding by federal, state, or local sources.

The traditional "pork barrel" approach to public works funding contributes to the disorder in government decisionmaking. One of the most politically expedient measures taken by legislators is to maintain and/or augment federal public works funds targeted for specific districts. Although this process attempts to meet public works needs, it leaves behind a uniform policy in favor of reacting to specific projects in specific areas.

Beyond "pork" politics, public works decisions are also made through authorizing and reauthorizing bills; through amendments to such legislation as the Federal Aid Highway Act, the Surface Transportation Assistance Act, and the Highway Revenue Act. For example, Congress recently passed, and the President signed into law, amendments to the Federal Water Pollution Control Act, which reauthorized the government's second largest grants program through 1985. These grants go to states and municipalities for construction of water treatment works and sewage facilities.

DEBT-SERVICE GRANTS

The ability of governments to accumulate capital for public works investments hinges largely on the issuance of state and local bonds and other forms of debt financing. The tax base of many cities has eroded significantly as businesses and residents have fled to the suburbs and to the Sun Belt. Tax reform measures in states across the country have placed limitations on taxing authority, further increasing the dependence of local governments on the bond market to raise funds.

The Municipal Capital Assistance Act of 1981 (H.R. 2801), introduced by Rep. Oakar (D-OH), attempts to address this dilemma by providing debt-service grants to local governments. The debt-service grant described in the bill is a contract by the Federal government to pay a stated portion of the total principal and interest of specific bond issues to finance specific restoration work on basic infrastructures. The bill authorizes grants of 25% of the total interest and principal on normal tax-exempt local bond issues, although it does not create a Federal guarantee to back up such bonds. Debt-service grants would be available to cover bond issue amounts up to $25 billion over the next 5 years. The result is that the Treasury would pay for 25% of the annual debt service of eligible governments for certain public infrastructure projects for a minimum of 10 and a maximum of 20 years.

The legislation premises that local governments can and should restore their own public infrastructures, and that municipal bond markets are functioning well. However, high interest rates and competition from money market instruments have bid up municipal bond rates and placed a financial squeeze on local government treasuries. In fact, a recent Business Week Special Report found that many of the nation's 29 largest cities have been gradually losing their credit-worthiness. Included in this group are New York, Detroit, Boston, Cleveland, Pittsburgh, Philadelphia, and St. Louis, all of which have credit ratings in the "B" range.

PUBLIC WORKS ASSESSMENT AND INVENTORY

Despite the emergence of serious public infrastructure problems, legislation in the area of public works assessment and inventory is virtually non-existent. An amendment to the Defense Production Act (H.R. 5540) offered by Rep. William Coyne (D-PA) and adopted by the House Banking Subcommittee on Economic Stabilization, is a partial first step. It requires the Office of Technology Assessment to "conduct a study of the public facilities or infrastructure essential to the defense industrial base" and to report to Congress twice a year with appropriate recommendations. Because public facilities that serve the defense industrial base often serve other sectors of the economy as well, an assessment of these facilities could help to identify the serious inadequacies in our overall public infrastructure.

OVERSIGHT

Cost overruns in federally-funded projects inhibit serious improvement in the public infrastructure. Major civilian acquisitions through various agencies have no reporting system which details cost overruns, despite the enormous overruns that do occur in those agencies. Last year GAO documented overruns of over 150% in some civilian agencies. One project even experienced overruns of 1000%. In some cases these overruns rival those of Defense Department acquisitions. However, DoD is alone in its reporting system, called the Special Acquisitions Report (SAR), which routinely reports overruns.

In an effort to curb cost growth through a "more uniform, consistent, and visible cost reporting system," Sen. Roth (R-DE), Chairman of the Committee on Governmental Affairs, introduced the Cost Reduction in Major Procurements Act of 1982 (S. 2397). The bill would require special legislation to continue funding for a civil acquisition whenever the cost of the acquisition increases or is estimated to increase by 25% or more over the initial cost estimate. The legislation would also require the reporting of status information on all major civil acquisitions.

ECONOMIC DEVELOPMENT

The National Development Investment Act, recently introduced by Reps. Clinger (R-PA) and Oberstar (D-MN) attempts to restructure the federal role in economic development by more selectively allocating public works dollars to distressed communities that offer sound plans for long-term growth. Instead of trying to spread a thin layer of public funds over many distressed areas, the legislation proposes awarding assistance in the form of revolving loan funds or infrastructure grants to those communities who best exhibit long-range multi-year strategies for economic growth. The criteria for awarding funds to communities include:

- the availability of land and space
- availability of low-cost capital
- tax policy on investments in an area
- level of skill of the labor force
- ability of state and local government to provide financial assistance in managing and implementing a proposed plan

The Clinger-Oberstar proposal presents an alternative to funding EDA, which has been targeted for elimination because of alleged ineffective program results. The bill suggests spending $500 million in each of the next three years, an amount roughly equal to EDA's current operating budget. The legislation would provide federal funds for 50% of the cost of a project, as well as small sums to communities to develop their investment strategies. The bill emphasizes that federal aid will be contingent upon private sector involvement in community investment strategies.

PLANNING

Perhaps the most comprehensive legislation addressing the inventory, assessment, and planning necessary to begin revitalization of the public infrastructure is S. 1658, introduced by Sen. Dodd (D-CT). The bill amends Title VII of the Housing and Urban Development Act of 1970 to require a "national public investment requirements analysis." Specifically, it directs the President to transmit to the Congress by February 15 of each year a comprehensive analysis that includes:

- an inventory of public facilities and an assessment of their condition, by geographic region and type of facility;
- an estimate of current and projected capital needs for the next ten years;
- an identification of sources of financing for public works construction, rehabilitation, maintenance, and operation; and
- an evaluation of the progress and effectiveness of Federal efforts to meet investment needs and to carry out such a policy.

S. 1658 also directs the President to establish public investment priorities, identify "problems and trends facing the U.S. as a result of public investment needs," and to submit additional analyses or reports as necessary. The bill requires that a wide range of public officials, experts, private organizations, legislators, and others familiar with public investment decision-making be consulted prior to the submission of the President's analysis to Congress. To date, no committee action has been scheduled on the bill.

Recommendations

The call to reform public investment policy and rescue America's deteriorating infrastructure will stimulate ideas from all sides. To be effective, reforms must be reached by national consensus, with strong oversight, planning, and management at all levels of government. They must avoid ineffective tinkering, and confront head-on the problem areas ingrained in the public works investment process.

FINANCING

In the 1980s, the competition for financial capital will be intense. The private sector will require substantial investment to retool and modernize basic industries. At the same time, America's public infrastructure must be renovated and revived. The investment levels required in the public sectors in the years ahead will far exceed the requirements of past decades. Despite this, local governments today are becoming financially crippled. Tax revolts have gutted the revenue base and federal aid programs are being trimmed. As a result, it will be even more necessary that governments plan and manage public works investments in a manner that makes efficient use of scarce and expensive capital.

One measure that could relieve some of the financial strain is to increase the application of user fees. While user charges are an accustomed method of financing many public services, there are many instances in which their expanded and creative use could result in more effective financing and more efficient management. The GAO has concluded that fee-for-service financing of urban water distribution systems, such as in Boston and New Orleans, resulted in better management. Conservation, reduced leakage, and meter accuracy were achieved in these cases. On the other hand, Washington, D.C., whose water systems are financed from general revenues, has experienced rapidly deteriorating water mains and pays little attention to leakage and conservation. In addition, communities in the southwest generate substantial revenues through the sale of municipal water.

The use of fee-for-service charges improves access to capital markets because of a dedicated, guaranteed flow of revenues. They also have the virtue of more directly relating prices to consumption and real costs. Many cities, such as New York, do not meter sales of water. Metering would eliminate much waste and could obviate some of the demand for construction of expensive, supplemental supply systems. Where the cost of providing meters is prohibitive, other alternatives can be devised. User charges can adversely affect low income communities, but in those circumstances, special income adjustments for the poor can be provided.

Another alternative that could relieve some of the financial burden of governments is private sector operation of some public sector facilities. Competition in garbage collection, fire protection, street cleaning, and parcel delivery are recent examples of using private contractors for the delivery of public services. These practices could be applied to the construction and operation of public facilities as well.

The Advisory Commission on Intergovernmental Relations (ACIR) and the International City Managers Association (ICMA) have conducted surveys to measure cities' reliance on and preference for the use of private sector firms to provide certain public services. Of 2,650 cities surveyed by ACIR, over 36% of the respondents indicated a preference for contracting with a private firm for services rather than shifting the responsibilities to government agencies. The ICMA survey of 379 cities determined that 225 respondents were already using private firms in their productivity programs -- particularly in solid waste collection and disposal, street maintenance and construction, hospital construction and operation, and public transit.

Private firms can sometimes be more efficient and operate at less cost than public agencies because of their ability to swiftly introduce new technology; their greater flexibility in the use of worker incentives; their ability to eliminate or reduce an unneeded service by simply not continuing a contract; and their often superior understanding of economies of scale and specialization.

Other privatization schemes are also possible. One is to grant licenses and rights of eminent domain to an authority or private company to permit them to finance and construct a facility, operate it with user charges until the investment is returned and a profit is secured, and then turn ownership over to the public. The major highway between Dallas and Fort Worth, Texas was financed, built, and operated in this manner.

DELAY

America can get much more for the public works dollars it spends if it attacks the losses resulting from delay and bad planning. About one-fifth of the $80 billion in annual public works appropriations is lost because of delay. The TVA is currently experiencing an average eight-year delay in seven major power plants -- a delay which has cost $11 billion. HUD's Community Development Block Grant Program has a construction backlog equal to three years of that program's annual budget for construction. The EPA has a backlog of constructionprojects exceeding $8 billion, which is equal to two full years of appropriations. Unnecessary delays decrease real capital investment as funds are diverted to the nonproductive task of financing increased interest charges generated when projects take longer to put into operation.

Unnecessary delays can be eliminated. In the short term, the $100 billion backlog of projects can be scrutinized for immediate action. The OMB and appropriate federal agencies can and should identify those projects which are permanently stalled or appear unlikely to begin construction within the foreseeable future and de-obligate funding so that monies can be reprogrammed for other projects. The funding agency could also create procedures for re-funding the project within a specific time period, so as not to unduly penalize communities with stalled projects. Backlogged projects could be classified according to likelihood of timely completion, and efforts could be made to accelerate some projects to reduce or eliminate delay.

A number of long-term policy and administrative reforms to improve time management are possible:

- Create Public Works Time Management Standards and Monitoring Procedures. Standards for public projects, such as time limitations on applications seeking government funds and deadlines for time consumed between project authorization and commencement, should be established and monitored.
- Create personal and institutional incentives. Reward or penalize public managers and employees according to how well they manage project tasks.
- Improve Planning of Government Actions. HUD has been able to accelerate the use of its funds by requiring block grant recipients to prepare a three-year plan for projected use of funds. This permits better citizen participation, better project consideration, and a more expeditious use of funds when they become available.
- Time Limits and Simplification. Regulatory, certification, compliance, and permit procedures must be simplified and must have time limits. All bureaucratic procedures should be accomplished within specific time frames. Individuals and organizations should be held accountable for direct and indirect costs of delay when time limits are exceeded.

WASTE AND FRAUD

The number of indictments and convictions for public works related fraud suggests that such fraud is widespread. Awards of government architectural/engineer contracts on the basis of contributions to political parties is virtually institutionalized in many states and communities. In 1980, the Justice Department obtained indictments against 34 companies and 41 individuals in four states for conspiring to raise prices and allocate highway construction contracts.

Fraudulent construction practices inflate project costs or result in deficient construction or both. Stopping fraud would be a major means of increasing the usable funds for public works projects. Continued identification and prosecution of firms and individuals that engage in fraudulent activities is just a first step. A comprehensive review of the adequacy of present federal and state justice efforts to uncover fraud is clearly needed.

Standards should also be required for construction of various types of public works. State and local governments and private industry should be involved in designing and applying such standards. Public notification of all public works contracts should be included in these standards.

Multiple oversight of public works activities should be required. This oversight should include funding agencies, independent inspector generals and local, state, and national legislative bodies.

Warranties on all work funded by federal, state, and local agencies should be required. While warranties may add small amounts to project costs, in the long term they serve as a major deterrent to fraud. Public officials also must be held accountable, both personally and financially, for shortcomings in their performance of duties, such as program oversight. In a sense these "guarantees" on workmanship and administrative performance would serve to tighten up loose public works management practices which lend themselves to fraudulent activities.

Waste is yet another problem in the funding of public works. Specifically, present administrative practices for public works are wasteful. There is no coherent approach to public works policy in the Executive Branch of the federal government. Policy setting has been dominated by individual congressional committees, each pursuing different and sometimes inconsistent goals. These inconsistencies contribute to a general lack of oversight and wasteful management of the public works dollar.

For example, state and local planning commissions must deal with 40 separate federal planning assistance programs, with their own regulatory formulas, to secure funds for economic and community development planning. This arrangement imposes duplication and administrative waste on state and local agencies. As a result, governments that attempt to coordinate these federal aid programs for their community's needs often conduct their public planning chiefly to meet federal regulatory requirements.

Many efforts have been made in the past to reduce or eliminate waste. Very few have been successful. The government has tried reorganization of federal agencies, interagency coordination, program simplification, intergovernmental review and comment, and new planning procedures. These attempts failed for a number of reasons, ranging from ineffective or time-consuming procedures to lack of serious program implementation. In addition, by focusing on separate problem areas and responding to program inadequacies as they arise, the government only puts out "brush fires," when what is needed is a more sweeping institutional and policy-making change, such as a national capital budget.

A CAPITAL BUDGET

A major flaw in public works policy-making and program administration is the absence of a coordinated national public works investment policy and a supporting capital budget. The government has explained the absence of a capital budget in the Special Analysis section of the annual budget proposal. Among other things, this explanation cites "formidable accounting problems," undue emphasis on capital construction rather than current operating expenditures, and difficulties in classifying capital and non-capital items in the budget.

Despite these considerations, the federal government already presents 11 Special Analyses in its annual budget, each of which bring policy and administrative overview to a particular budget area. For example, one analysis presents a comprehensive overview of federal credit activities, detailing direct federal loans, loan guarantees, and other credit transactions. As a result of this, OMB is now able to better manage federal credit activities. A Special Analysis outlining planned capital expenditures, if used as a primary decision-making tool, would permit a similar overview and pre-planned management of these budget requirements. In addition, the Congress and the federal branch would establish separate priorities for capital investment and weigh these budget decisions against other federal spending programs.

The first and most important step in fostering the capital budget process is the creation of a comprehensive capital special analysis to the annual budget. This special analysis would provide the basic information on which needs and decisions should be reviewed by both the Executive and Legislative Branches. In contrast with other special analyses, such as Special Analysis D, which GAO notes is an "after-the-fact" document, this special analysis would be used at the planning stage as a decision-making instrument.

It is recommended that the Congress mandate the Executive Branch to create an annual Special Analysis of Capital Expenditures as part of its annual budget submission to the Congress. This special analysis will chronicle the following:

- An estimate of aggregate capital investments (construction and rehabilitation) required to provide specific levels of specific public works services over several discrete periods of time, such as one, five, and ten years.
- An estimate of aggregate operation and maintenance investment requirements.
- The identification of sources of financing.
- The identification of federal public works investment priorities..
- A presentation of how the proposed annual capital expenditures contained in the proposed budget would relate to the nation's longer term needs and the federal government's longer term public works investment strategies.

It is recommended that the special analysis initially include only domestic civil works and exclude defense facilities and equipment.

It is also recommended that the Congress mandate the Executive Branch to prepare the following data, information, and assessments in a timely manner to permit their inclusion and use in the Administration's budget submission.

- The creation of a uniform national set of standards to measure the specific level of service provided by specific types of public works facilities, such as roads, sewer systems, and water treatment systems;
- An inventory of the nation's public facilities;
- An assessment of the physical condition of these facilities;
- An assessment of the levels of service being produced by these facilities;
- An estimate of the costs, over discrete periods of time, to continue specific present, higher, and lower levels of service; and
- A public works evaluation system that can be used for oversight of federal public works activities by the Executive and Legislative Branches.

The most direct and most efficient way to create a capital budget would be to require the Office of Management and Budget, as the central budget office, to differentiate between capital expenditures and operating expenditures for all public works related programs. Capital items in the federal budget are now treated as an operating expense. This will permit the President and the Congress to view federal capital expenditures in terms of:

- Aggregate capital investments;
- Aggregate investments in specific types of public works projects such as bridges, highways, or sewer treatment systems, and by functional categories of the budget; and
- Agency investments by types of public works projects and by related activities -- new construction, rehabilitation, repair, maintenance, and operation.

Finally, this breakdown between capital and operating expenditures should identify sources of financing — general funds, trust funds, or other means. By building on the existing budget process, it is possible to explicitly consider the federal capital investments without making any structural changes or consolidations in agencies or congressional committees.

It is lastly recommended that Congress require the Executive Branch to distinguish in the annual budget, where possible, between capital and operating authorities, outlays, deficits, surpluses, and revenues within each functional category, agency, and program. This will result in a national capital budget. As a part of this capital budget, ten year projections should be prepared on anticipated capital and related operation expenditures. In addition, when funds from capital trust funds are used for other than capital expenditures, the Executive Branch should be required to highlight such uses in the capital budget.

Conclusion

America's public infrastructure provides the underpinning of the American economy, yet it is deteriorating because of inadequate investment and inadequate attention to basic public capital. A primary cause of this decline is the disordered public works policies, institutions, and programs of the federal government. This disorder must be corrected and can be corrected by a number of pragmatic policy and administrative steps that are now possible under existing legislation. These reforms should not be delayed.

At the same time, the most fundamental step needed to bring long term direction and coherence to the nation's public works activities is the creation of a national capital budget. This document will require the preparation of better information, the consideration of many difficult choices, the establishment of priorities, and the improved allocation of responsibilities within our federalist system of government.

In an era of scarce public resources and a compelling need for renewal of our public infrastructure, a national capital budget, and the improved public works policymaking that will come with it, must become a high priority item on the national agenda.

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD BY REPRESENTATIVE JOHN CONYERS

Additional Views of Commissioner Weinberg on Indicative Planning

NATIONAL COMMISSION ON SUPPLIES AND SHORTAGES

DECEMBER 1976

PREFACE

This volume contains the complete text of the Additional Views of Commissioner Nat Weinberg which, due to their length, were summarized by him in the Commission's report. Commissioner Weinberg believes that the Commission has inadequately addressed certain issues and has exercised his privilege to state where, in his view, these deficiencies lie and how they might be corrected.

Drafts of Commissioner Weinberg's statement were circulated prior to the last two Commission meetings for purposes of discussion and to give any other Commissioner who wished a chance to have his name associated with it. None has chosen to do so.

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ADDITIONAL VIEWS OF COMMISSIONER WEINBERG ON INDICATIVE PLANNING*

SUMMARY

Events of recent years have driven home to many the thought expressed by Senator Mansfield as the legislation creating this Commission was debated in the Senate. "[S]ome mechanism ought to be provided," he said, "that gives us an alternative to the crash-based planning with which the Nation attempted to meet the energy crisis." He went on to discuss the need for economic planning.

When, as a result of Senator Mansfield's initiative, Congress established the National Commission on Supplies and Shortages, it intended that the Commission should at least evaluate the advisability of creating an independent agency to do indicative economic and social planning for the United States. The leadership of the Senate understood and expected that the Commission would go further and recommend creation of such an agency.

This separate report is necessary because the main report of the Commission does neither.

If the recommendations of the main report were carried out, there would be some improvement in the sectoral forecasting and policy analysis capabilities of the Federal Government. But such improvements, in themselves, are not adequate substitutes for indicative planning.

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* A semantic issue must be dealt with at the outset. Some who favor indicative planning are reluctant to use the word "planning" for fear of the hostility that word arouses in certain quarters. However, if the substance of any proposal is planning, anti-planners will be sure to attach the planning label to it regardless of any euphemism used by its proponents. It should be noted that leading sponsors of the legislation that created this Commission did not hesitate to mention "planning" during the Congressional debates on the legislation.

How Indicative Planning Would Work

Indicative planning must be clearly distinguished from the mandatory planning of the communist countries. Under indicative planning, the Government would not intervene in the economy in any different fashion from the way it does now -- except for one important change: it would attempt systematically to coordinate its actions so that they would contribute as efficiently as practicable to the achievement of democratically determined national goals. Neither the goal-setting nor the forecasting functions required for planning would plunge the Government into a range of wholly new activities. Government already does both on an extensive scale. But when goals are set without planning, there is often a danger that as we pursue one goal we frustrate the attainment of others. Under planning, proposed goals and the means for attaining them would be examined for consistency with other goals and means, and the totality of the goals would be considered in relation to the availability of resources to achieve them. As for government forecasting, it is now done on a piecemeal basis. Indicative planning would require that the separate forecasts for sectors of the economy and for regional development add up to a coherent whole, taking into account, to the fullest extent possible, the interrelationships and interactions among the various parts of the economy. Under these circumstances, any action by the Government relating directly to one part of the economy could be assessed in the light of its indirect effects on the other parts.

Insofar as the private sector is concerned, indicative planning would neither infringe any freedoms nor increase "dictation" by government. Private institutions would continue to conduct their affairs under planning just as they do today except that they would have a better foundation of information upon which to build their own plans, including advance knowledge of what government intends to do. The forecasts required for planning, including forecasts of the sectoral and regional effects of planned governmental actions, would provide a common framework of assumptions for private as well as public decisionmaking, thus tending to promote smoother meshing of activities within and between the private and public sectors.

The shaping of indicative planning mechanisms for the United States should be guided by two principles.

The first is that the planning process should be democratic, attracting the widest possible participation of the citizenry in determining the goals to be sought through planning. This can best be accomplished by offering the public alternative plan options whose respective goals reflect the differences in the value systems of the major interest groups in our pluralistic society. The preparation of such options would require the involvement of representatives of those interest groups in the top echelon of the planning agency. Presentation of clear-cut choices among proposed plans would stimulate public discussion and debate. This in turn would tend to impel the President and Congress to propose and adopt plans that would conform reasonably well to the desires of the majority.

The second principle is that there must be realistic and reasonably effective procedures to carry out whatever plans are ultimately adopted by Congress. Implementation requires legislation, including appropriations and tax measures, that are consistent with the plans. It is more difficult to integrate legislation with planning under our governmental institutions than it would be under a parliamentary system. Nevertheless, by tying congressional action on proposed plans into the existing budget process, the separate items of economic and social legislation adopted by Congress could be made to add up to a reasonable approximation of a coherent plan.

Recommendations

The recommendations in this separate report are submitted with no claim that they represent the only, or even the best possible, means for indicative planning in the United States. They do show, however, that it is possible to set up democratic and reasonably effective planning institutions and procedures that would fit without difficulty into the existing governmental framework.

In broad outline, the recommendations are as follows:

Formulation and publication of plan options -- An independent Commission would be created by Congress, composed of three public members, and two each representing consumers, labor, and business, respectively. Any two commissioners would be free to develop and propose their own plan option. A new Statistics Center (needed in any case to coordinate governmental statistical programs and to improve analyses for policymaking) would help the Commissioners to develop options that were coherent and feasible. All the options developed in the Commission would be presented simultaneously to the President, the Congress, and the public.

Presidential response -- The President would be required to respond to the options in his Economic Report. He could adopt or modify one of the options prepared in the Commission or he could propose a different option developed by his staff, also with the aid of the new Statistics Center.

Congressional action -- The Congressional Joint Economic Committee (JEC), after consultation with the appropriate legislative committees, would adopt one of the options presented by the Commission and the President, modify one of them or develop its own. The JEC would be assisted by a Congressional Planning and Budget Office (which would incorporate the present Budget Office) working closely with the new Statistics Center. Certain numerical goals of the plan proposed by the Joint Economic Committee, upon approval by Congress, would be included in the concurrent resolutions on the budget required under the present Congressional budget process. The JEC, in liaison with the appropriate legislative committees, would monitor proposed legislation for conformity with its plan and the latter's numerical goals. The budget adopted by Congress would be required to be consistent with those goals and thus would become the main instrumentality for implementation of the plan.

Follow-up -- The President would be required to use his discretionary powers in a manner consistent with the numerical goals. The Federal Reserve Board would be required to provide the volume of credit needed to attain those goals and, if necessary, to allocate credit to facilitate their attainment.

No Need to Wait

Planning is one of the most difficult and complex processes a society can undertake. No one can claim that planning and the forecasting associated with it will work perfectly. The difficulties will be especially great in the early years, when a planning commission would be well-advised to proceed slowly and cautiously, not attempting to do too much too soon. But the alternative to planning is more of what we have now -- a piecemeal, haphazard series of responses to the increasingly serious problems that confront us. As a planning commission accumulates data, experience and expertise, its proposed options could be made more sophisticated and their probable implications could be spelled out in greater detail.

There is no good reason to wait, however, before embarking on indicative planning. The state of the art, it is true, still leaves much room for improvement. Nevertheless, it is advanced enough to have produced results considered useful by other democratic countries engaged in indicative planning.

It is ironic that the United States has waited this long to undertake indicative planning, since it was our Government that stimulated much of the planning now carried on in the non-communist world. It required Western European governments to engage in extensive planning as a condition for receipt of grants under the Marshall Plan. It imposes similar requirements upon less developed countries receiving U.S. economic aid.

Indicative Planning and Full Employment

Indicative planning would help to attain stable full employment -- a goal which, judging by the verbal tributes paid to it, has practically universal support. In view of the human hardships and economic waste resulting from unemployment, it would be indefensible deliberately to plan for anything less than full employment. A recent study found that a one percent rise in the unemployment rate is associated, after a few years, with an increase of tens of thousands of disease-caused deaths and significant increases in suicides, homicides, and mental hospital and prison admissions. The economic waste resulting from unemployment is staggering. As of the third quarter of 1976, the loss of Gross National Product, compared to what it would have been with a 4 percent rate of unemployment, was over $200 billion at an annual rate and far greater compared to the GNP level under actual full employment.

To those who fear that full employment must bring inflation in its train, three things must be said.

First, based in part upon recent experience, there is increasing skepticism among economists about the concept of an unavoidable trade-off between full employment and price stability. In fact, there is a growing belief that policies based on acceptance of the trade-off notion tend to aggravate inflation.

Second, the searching examination of economic interrelationships entailed in planning would help to uncover in advance, and would thereby facilitate preparations to offset, potential bottlenecks and other potentially inflationary factors.

Third, a governmental commitment to stable full employment, supported by a plan designed to make good on that commitment, would avert or minimize the recessions that cause underinvestment by industry, followed, as recovery proceeds, by shortages of capacity that trigger inventory hoarding and speculation, thus tending to spread inflation throughout the economy.

Indicative planning, therefore, could make possible the simultaneous achievement of the goals of full employment and price stability.

I. INTRODUCTION

This separate report has been made necessary because, regrettably, the majority of the Commission's Members did not undertake what was by far the most important task set for it by Congress -- to recommend structures and processes for indicative national economic and social planning.

There is room for legalistic argument that, read literally, the language of the statute creating the Commission does not require it to make such recommendations. The legislative history, however, leaves no room for doubt that the Senate leadership expected and understood that such recommendations would be forthcoming. At the very least, the language of the statute and the legislative history, taken together, do impose on the Commission a duty to evaluate the "advisability" of creating an instrumentality to perform the indicative planning function.

It is not necessary here to make the case for planning. It is made from a wide variety of perspectives in a voluminous literature that is readily available to all who are interested. The need for planning was explicitly the postulate upon which sponsors of the legislation creating the Commission built their arguments.

It is worth noting, however, that while our Federal Government has thus far rejected planning for itself, it has, for a quarter of a century, repeatedly imposed comprehensive planning requirements on others. It required Western European governments to engage in extensive planning before they could receive grants under the Marshall Plan.1/* It imposes similar requirements upon some developing countries as a condition for receiving economic aid.2/

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* Sources appear at the end of this report.

It requires State and local governments to engage in various forms of planning as a condition for receiving grants for a growing list of capital improvements: housing, highways, mass transportation, water and sewer facilities, airports, hospitals, libraries, and solid waste management facilities.[3/] Additionally, it has displaced State and local governments from regulating the environment if those governments have not adopted comprehensive plans that satisfy Federal requirements.[4/]

Even without Federal stimulation, planning is a widely accepted activity in both the public and private sectors in the United States. Many State governments have seen the need to establish their own planning agencies, often with the word "planning" in their titles. Major American corporations, including some whose executives oppose governmental indicative planning, maintain planning staffs and carry on their activities in accordance with carefully prepared plans, short-run, intermediate and long-term.

The Federal Government is increasingly a rarity among large institutions in denying itself -- and the American people -- the benefits of planning.

II. LEGISLATIVE HISTORY

The National Commission on Supplies and Shortages Act, as introduced in the Senate and subsequently enacted, requires the present temporary Commission to report on the advisability of establishing a permanent independent agency to examine and analyze supplies and shortages in the U.S. and world economies. The present Commission is to perform that examination and analysis on an interim basis. The legislative history of the Act*/ shows that Congress required the present Commission to conduct its interim examination and analysis, not in isolation, but in the context of the entire U.S. economy. Clearly, the present Commission should be reporting on the advisability of establishing a permanent independent agency to conduct an examination and analysis that would at least meet the interim requirements of the Congress.

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* The National Commission on Supplies and Shortages Act was introduced in the Senate and reported by a Senate Committee as S.3523. After extensive debate, the Senate ultimately adopted the Act by amending another bill, S.3270 -- substituting the Act for a very different proposal which originated in the House. Cong. Record S.8808-8811 (May 22, 1974), S.10344-10362 (June 11, 1974), S.10367, 10377-10399, 10437-10448 (June 12, 1974), S.15383-15388 (August 20, 1974), S.16861-16862 (September 17, 1974). The House acceded in this amendment after only cursory debate. Cong. Record H.9298-9299 (September 17, 1974). Given this history, it is logical to try to deduce the legislative intent behind the Act from Senate debates, not from the House. The Supreme Court has gone so far as to adopt a statutory interpretation conflicting with legislative history in the House, where a provision has originated in the Senate. Steiner v. Mitchell, 350 U.S. 247 at 254 (1956).

The Act, as introduced, was changed by the adoption of Senator Humphrey's amendment requiring the present Commission to establish an Advisory Committee to develop recommendations for the establishment of a Federal policymaking process and structure to integrate the study of supplies and shortages into the total problem of balanced national growth and development. This amendment makes explicit the requirement, implicit in the original bill, that the Commission at least evaluate the advisability of creating an instrumentality to do indicative planning for the national economy.

Pervading the discussion of S.3523, which was to become the National Commission on Supplies and Shortages Act, were expressions of awareness that problems of materials could not be solved in isolation. As Senator Humphrey was to put it:[1]

> In today's world, everything relates to everything else. No problem, no policy issue can be totally insulated from other problems and policy issues.

That awareness had been reflected in the report of the Senate Commerce Committee on S.3523, issued a few days before Senator Humphrey made the remark quoted above. In elaborating on the factors which the present Commission was to consider, the Commerce Committee mentioned such matters as:[2]

> "...the availability of energy, the impact of environmental and other regulatory controls, the effects of imports and exports, the availability of modern technology to produce products, the availability of labor and capital, wages, prices, fiscal and monetary policies, the structure of industry, and practices of foreign governments..."

With regard to the requirement that the Commission list and assess alternative government and private actions to alleviate predicted shortages or adversities, the Committee's report said:[3]

> Such an assessment would include the economic, social and environmental strengths and weaknesses of the alternatives.

In connection with the requirement that the Commission examine existing policies and practices of government affecting supply, the Committee's report said that the areas of policy to be reviewed should include:[4]

> ...foreign, military, anti-trust, environmental health and safety, and import and export policies, as well as policies relating to the management of domestic agricultural and mineral resources, manpower and productivity policies, policies affecting the rate and nature of private investment, policies affecting industrial efficiency and competitiveness, and policies relating to science and technology.

Adoption of an amendment proposed by Senator Taft added "employment, price, or business practices" and "adverse impact upon consumers" to the factors to be considered by the present Commission.

Rational policy formulation to cope with the interrelationships between supplies and shortages, on the one hand, and all the factors mentioned in the Commerce Committee's report, on the other, obviously would require planning. Planning was thus implicit in the legislation as it emerged from the Committee. Senator Hartke appended additional views to the Committee's report urging that the planning objective be made explicit. Senator Humphrey introduced an amendment designed to accomplish that, which, after modification, became subsection 720 (i) (2) of the Act. It provides that:

> In order to establish a means to integrate the study of supplies and shortages of resources and commodities into the total problem of balanced national growth and development, it shall additionally be the function of the Commission to establish an advisory committee to develop recommendations regarding the establishment of

> a policy making process and structure within the executive and legislative branches of the Federal government and a system for coordinating these efforts with appropriate multi-State, regional and State governmental jurisdictions.

As is well known, the phrase "balanced national growth and development" is the congressional euphemism used in discussions of planning. Thus the Advisory Committee was mandated to develop recommendations regarding the establishment of a "process and structure" for planning.

It is not necessary to rely on interpretation of euphemisms, however. Before the Senate acted on the legislation in approximately its final form, Senator Mansfield explained it in a floor speech:

> [A]t the outset of this session the majority caucus and the majority policy committee voted to support the establishment of an instrumentality designed to assist the Nation is dealing with potential future areas of crisis with regard to sufficient supplies of resources, materials and commodities. Economic foresight was the way we perceived it, and it was agreed that some mechanism ought to be provided that gives us an alternative to the crash-based planning with which the Nation attempted to meet the energy crisis... Finally, may I say that economic planning is not an easy task. Indeed, it is one of the most ambitious undertakings in which a society - any society - can engage. But it seems to me that information-gathering in a comprehensive and coordinated fashion, followed by full and effective analyses will provide the only way this Nation can prepare itself not just for immediate concerns but for the crisis that looms ahead - on the horizon and beyond. It is not compulsive planning to which I refer. It is instead the presentation of alternative options that might be employed today as the only way of avoiding the crisis that most assuredly will arise tomorrow and the many tomorrows thereafter. This is the facility that is required. It is needed by the Congress. It is needed by the executive. It is needed by the Nation. [Emphasis added]

At the conclusion of this speech, Senator Mansfield introduced into the record an article by Professor Wassily Leontief entitled "What an Economic Planning Board Should Do."[5]

Before the final vote, Senator Mansfield introduced into the record a letter from the bipartisan Senate leadership to the President concerning the Act which included the following:[6]

> Its genesis lies in a recommendation made last February to President Nixon concerning the establishment of an intrumentality designed to assist the Nation. . .in dealing with future areas of crisis with regard to sufficient supplies of resources, materials and commodities. It will be the task of the Commission . . .to provide specific recommendations. . . as to a permanent facility at the highest level of our national life. . . to perceive a potential economic crisis area and to offer alternative policy actions needed to offset or mitigate that crisis. More importantly . . . this Commission itself must perform the basic indicative economic planning function until Congress acts on its recommendations as to a permanent facility . . . [Emphasis added]

The "permanent facility" (i.e., the "independent agency" referred to in Section 720(h) of the Act) was, in Senator Mansfield's view, to be an agency for indicative planning.

The legislative history shows that he confidently expected that this Commission would recommend such an agency. After adoption of the amendment referring to "balanced national growth and development", Senator Humphrey proposed another amendment to delete the word "advisability" from (what is now) Section 720(h) of the Act. The effect would have been to require the Commission to report, as he put it, "the format and structure for the establishment of an independent agency" -- not merely to comment on the advisability of creating such an agency. Senator Humphrey asked whether his amendment "complicates matters." Senator Mansfield replied that it did, whereupon:[7/]

> Mr. Humphrey. Does the Senator believe that the word "advisability" there leaves the option open to a point where an independent agency would not be recommended?. . .
>
> Mr. Mansfield. No, no . . .[W]hat we are seeking to achieve on as solid a basis as possible is a permanent commission which could sort of act as a point organization; take out the possible deficiencies and come up with ways to develop alternatives, substitutes, or whatnot to overcome the crises not only in metals but in food, pure air, pure water. It covers the whole spectrum; it is not simply tied to supplies of food and minerals... The Senator can be assured that there will be no tampering; that the idea will be for the temporary Commission to lay the groundwork on the recommendations for a permanent Commission which it would have to come back to Congress to achieve.

Having obtained Senator Mansfield's reassurance, Senator Humphrey withdrew his amendment. Although the word "advisability" therefore remained in the Act, it was clear that both Senators understood and expected that the Commission, nevertheless, would recommend the establishment of an independent agency. The mission to be assigned that agency, as previously shown, was performance of the indicative planning function.

III. COMMENTS ON MAIN REPORT

Unfortunately, the main report of the Commission does not respond to the Congressional expectations evident in the legislative history of the Act that created it.

Planning is barely mentioned in the main report. Nevertheless, that report recognizes, at least implicitly, that more is required than it recommends. It expresses a belief that the improved information and analysis capabilities it recommends will help to provide the means to deal with problems before they become crises. It then goes on to say:

> However, unless there is a determination to use such information in reaching decisions. . . creation /of such capabilities/ will be an empty exercise. This Commission can not assure that any President and his principal advisers will make use of such information. We can indicate the steps that must be taken to assure that the information is available.

To assume that this Commission can do no more is a totally unwarranted confession of futility and, it must regretfully be said, an abdication of the Commission's responsibilities. It could and should have made recommendations that would impose on the President a need to use the improved information.

Congress sought from the Commission recommendations for a "process and structure within the executive and legislative branches" that would help to impose rationality upon government policymaking so that, to repeat Senator Mansfield's words, there would be "an alternative to the crash-based planning with which the Nation attempted to meet the energy crisis."

It is not enough merely to propose, as the main report confines itself to doing, improvements in data collection and analysis -- necessary though they are. There must be an action-forcing mechanism that will require those charged with responsibility for the Nation's welfare to make systematic use of the data and analyses in policy formulation. If the discipline necessary for the formulation of coherent indicative plans were imposed by law, the need to use the best data and analyses obtainable would be inescapable. The Commission should have proposed such legislation.*

These comments on the main report are directed primarily to Chapter 6 entitled "A Broader Perspective for Government Policy." The means proposed in that chapter and in the preceding one to improve data and analyses are, on the whole, commendable and move generally in the right direction. But Chapter 6, in particular, does not go nearly far enough. This separate report is partly substitute for and partly extension of that Chapter. In addition to what has already been said, the main deficiencies of that Chapter may be summarized as follows:

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* After it had been pointed out (in a preliminary draft of this separate report) that the Commission would be remiss if it recommended only steps to improve sectoral information and analysis, without some means to assure they would be used, a recommendation was added to the main report calling for multi-year budgeting. This would add nothing of significance to current practice. The Congressional Budget and Impoundment Act of 1974 already requires the President to make 5-year budget "projections" and requires Congressional committees to make similar projections with respect to every bill or resolution providing new budget authority or new or increased tax expenditures. Since neither the President nor any Congress can bind his or its successors, multi-year budgets inevitably would be no more than "projections." Indicative plans, too, can (and, in fact, should) also be revised by each new Congress, as is proposed in the recommendations of this separate report. But plan formulation compels use of precisely the sectoral and industry analyses which the main report seeks to improve while budgeting does not. In fact, the presently required budget projections create so little need for high-level sectoral policy analyses that the four Administration members of the Commission, including the Director of OMB, felt free to reserve judgment on the main report's recommendations for improvement of such analyses. Thus, the needed action-forcing mechanism remains absent from the main report.

1. Unless supported by an agency such as the Center for Statistics and Policy Analysis proposed by the Commission's Advisory Committee*, the small sectoral and industry analysis staff proposed to be established in the Office of Management and Budget (OMB) would hardly be sufficient to gain the understanding of the economy's intricate web of interrelationships required even for the limited purposes proposed in the main report -- to say nothing of the even greater needs that would be generated by indicative planning.

2. Relying on OMB for policy-oriented sectoral and industry analysis would tend to confine the range of options examined to those known in advance to be acceptable to the Administration. As the main report notes, although in a somewhat different connection:

> A policy analysis group subordinate to a policymaker...may lose its breadth and perspective, and loyally rationalize the thinking of its supervisor /in the case of OMB, the President/ while by-passing more realistic or more beneficial alternatives.

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*See Report of that Committee for a full description of proposed Center. For purposes of brevity, it will often be referred to in the remainder of this separate report as "Statistics Center."

The staff and function involved should be placed in an independent agency free from domination by the President.

3. It is proposed to restrict the scope of the proposed sectoral and industry analysis staff to "mining (including energy), manufacturing and agriculture." Transportation, housing, manpower, regional and urban development, health care and education are explicitly excluded, although the hope is expressed that the analysts would become aware of the cross-impacts between those fields and mining, manufacturing and agriculture. It is stated that the "success (or failure) of a group having this limited a charter would tell us much about how far such an activity ought eventually to be extended."

Even from the narrow materials focus that pervades the main report, the exclusions seem incomprehensible in view of the heavy demand for materials arising out of some of the excluded areas (e.g., transportation and housing). Instead of providing a fair test of the usefulness of the proposed capability, the gaps in information and consequent defects in analyses that would be caused by the exclusions would almost guarantee failure.

Moreover, the excluded areas are those where government most directly affects the lives and well-being of the population. The primary purpose of government and the economy is, or at least should be, to serve people. Mining, manufacturing and agriculture are mere means to that end. Housing, education, and health care are direct and vitally important services. It is a strange version of policymaking that focuses on means while treating ends as only of peripheral importance.

4. For purposes of "lengthening the time horizon of government policy development," the main report gives half-hearted support to creation of the National Growth and Development Commission (NGDC) proposed by the Commission's Advisory Committee. In the words of the Advisory Committee, the NGDC should:

> ...be created as an independent agency in the executive branch of the Federal Government. It should have a broad mandate to examine emerging issues of middle- to long-range growth and development, and to suggest feasible alternatives for the Congress, the President, and the public. In creating the Commission, Congress should impose upon itself and upon the President the requirement that both respond to the reports issued by the Commission.

The Advisory Committee also recommended that the President's Economic report be expanded:

> ...so that it includes more analysis by sector and region, and sets forth Presidential goals, plans, priorities and initiatives for programs and policies related to national growth and development.

The Committee suggested that, while the choice of methods of response to the National Growth and Development Commission's reports should be left to the President, the expanded Economic Report "would be an ideal vehicle."

Development of policy options to deal with middle- to long-range issues and more sectoral and regional analysis are essential conditions for rationality in government and would be crucial elements of an indicative planning process. The Advisory Committee's recommendations, however, do not provide a sufficient answer to one of the shortcomings of present Federal decision-making which it cited as a reason for proposing the creation of the NGDC, namely:

> ...a lack of integrated policymaking within both the Executive and Legislative branches. This deficiency has led the nation to tackle problems in bits and pieces, often producing results favorable in one area but counter-productive in another. [emphasis added]

Without the framework of a fairly comprehensive indicative plan, the "bits and pieces" approach would continue although, with the aid of the proposed Statistics Center, it might be made somewhat more sophisticated. As one member of this Commission noted, the NGDC proposal amounts, in essence, to creating inside government an institution similar to the privately funded Commission on Critical Choices.

The proposed requirement for Presidential and Congressional response to the NGDC's output, which could not be applied to a private organization, is unquestionably a move in the right direction. By itself, however, it is not nearly an adequate substitute for imposing (as the recommendations set forth below would) a discipline on the President and Congress, compelling them to examine and to act on government policies in comprehensively integrated fashion -- a discipline similar to and tied to that imposed by the present requirements for the President to propose and the Congress to act on the budget.

Existing requirements for reporting by the executive branch on a variety of topics are often met only in perfunctory fashion and, even when they are not, there is no guarantee that they will evoke a Congressional response. In the Mining and Minerals Policy Act of 1970, the Congress stated a comprehensive minerals policy in broad terms, then required the Secretary of the Interior to carry out that policy and report annually, recommending legislation needed to implement the policy.[1] Six years later, the Department of the Interior is still not making decisions in terms of the comprehensive minerals policy which the Act mandated in general terms; the Department's *pro forma* annual reports are useless as guides to legislative actions.[2] In Title VII of the Housing and Urban Development Act of 1970, the Congress declared a broad national urban growth policy and required the President to report biennially (through the Domestic Council) on urban growth, recommending programs needed to carry out the policy.[3] The President's reports, expanded to cover the entire subject of national growth and development, contain virtually no policy guidance.[4] Similarly, in the National Environmental Policy Act of 1969, Congress declared a broad national environmental policy, and required the President to submit annually (with the advice of the Council on Environmental Quality) a review of the effect of private and government actions on the environment and a program for remedying deficiencies.[5] Once again, these reports are almost exclusively descriptive, lacking in effective guides to action.[6] This state of affairs must be attributed both to Executive disregard of over-broad mandates and to lack of Congressional follow-through.

5. The composition of the proposed National Growth and Development Commission provides no assurance that it would consider the issues deemed most urgent by important sections of the population or that it would present a sufficiently broad range of alternatives. The suggestion that four of its nine members serve part-time would make it possible to involve representatives of interest groups but that would not be required. No provision is made to allow the part-time members to appoint their respective personal representatives to the staff, which means that such members would be at a serious disadvantage in relation to the full-time members. Presumably the alternative policy options to be presented would be determined by majority vote of all the members. The compromises necessary to achieve majorities would tend to constrain narrowly the range of options presented.

6. As a result of the deficiencies noted in the two immediately preceding points, there is serious danger that the proposed National Growth and Development Commission would become nothing more than an academic group, studying selected issues of interest to a majority of its members, rather than an instrument of public policy requiring decisionmakers to react in practical terms to the alternative courses presented to them.

7. The Advisory Committee proposes, and the main report apparently agrees, that the National Growth and Development Commission should be subject to a "sunset provision." Such a provision would almost guarantee that the NGDC would be, at best, a short-lived experiment. As the Advisory Committee notes:

> The Committee is sensitive to the fact that much of the [NGDC's] work may be controversial. Simply in choosing the topics to be studied, even without regard to its findings, the [NGDC] will inevitably make some enemies.

Among the most likely enemies is the President. Under the proposed sunset provision, which would require reenactment of the body's legislative charter after seven years, the President, exercising his veto power, would need the support of only one-third plus one of the members of either House of Congress to terminate the NGDC's existence.*

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*Sunset provisions, while seeming to offer an answer to the problem of perpetuation of agencies and programs that have outlived their usefulness, are a form of remedy that is worse than the disease it is supposed to cure. In effect, they mean minority government because they would permit any program, no matter how useful, to be killed by a hostile President supported by a sufficient minority in either chamber of Congress. They could also create chaotic conditions as changes in the political party in control of the White House led to alternating resurrections of programs previously killed and killings of programs previously resurrected. All programs and agencies should be subjected to rigorous Congressional review, more searching than normal oversight, at regular intervals. But it should be up to majorities, rather than minorities, in Congress to decide whether they die or continue to live.

In short, the Commission's main report, including its unenthusiastic endorsement of the proposed National Growth and Development Commission, not only fails to respond to Congressional desires for recommendations for a "process and structure" for indicative planning. The recommendations made in the main report are inadequate to achieve even the more limited objectives that that report sets for itself.

IV. WHAT PLANNING MEANS

The form of planning envisioned by the framers of the legislation creating this Commission is "indicative planning" as opposed to the mandatory planning of the communist countries.

Under indicative planning the Government would do nothing different in principle from what it presently does by way of intervention into the economy. It would continue to tax and spend; to apply incentives, deterrents, subsidies and penalties; to regulate, prohibit and encourage; to forecast; to set goals; to enact and implement legislation designed to channel resources toward the attainment of certain goals while discouraging their use for other purposes. It would carry out all these functions, however, with systematic attention to their interrelationships and to the short-and long-term consequences of all of them in combination. It would have available the means to coordinate its activities so as to avoid, or at least minimize, inconsistencies, conflicts, overlaps, duplications and gaps in its programs. It would act with the fullest attainable awareness of the effects of its actions upon the economy and the society as a whole, including at least the major components of the private sector, and upon the separate regions of the country. It would be in a position to examine existing programs, to formulate new ones and to eliminate old ones so that the aggregate of all government actions would contribute as efficiently as practicable to the achievement of democratically determined national purposes.

Goal-Setting

The most important step in planning is determining the economic and social goals to be sought. Goal-setting is not a new activity for government. The Apollo program and the building of the interstate highway system are but two of many examples of governmentally established goals. Through government, we decided, as a Nation, to put a man on the moon within ten years and we did. Under the interstate highway program, we set a goal of building a national network of (initially) 41,000 miles of modern limited-access roadway within 16 years and, although the schedule was not met, the system is now approaching completion.*

We also set ourselves a goal of 26 million new dwelling units in ten years which, tragically, we have fallen far short of achieving.** The failure in housing, however, is not a condemnation of goal-setting but rather underlines the need for planning. For planning would involve an effort to assure that our separate goals (and the respective means used to attain them) were mutually consistent. The shortfall in housing is attributable primarily to restrictive monetary policy and to inadequate government stimulus from the fiscal side. Both impediments resulted from mistaken means adopted to pursue another goal -- price stability. The result was that neither goal was achieved. In fact, the shortage of housing in relation to need inevitably will be a significant factor, if it is not already, in inflating housing prices, for need will be translated into demand as economic recovery brings jobs and incomes to the unemployed and raises family incomes for the presently underemployed.

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* The interstate highway program offers a good example of the unwisdom of goal-setting without planning. The focus was entirely on highways, as such, without regard to the interrelationships between highways and a variety of other factors. As a result we came to see only when it was too late the destructive effects of the interstate system on the cities, the suburban sprawl they fostered, the isolation of inner city workers from the jobs that were increasingly concentrated on the periphery and beyond, increased demand for heavy and high-gas-consumption cars that the speeds possible on the new highways made attractive, etc.

** Better planning might have caused thought to be given to the social and economic desirability of combining large-scale rehabilitation of existing houses with new construction in order to preserve neighborhoods and the social ties of the people living in them and to conserve materials, among other things. A formal indicative planning procedure also would have required frequent review of the numerical goal (under the proposals made here, every two years) to check it against population trends. (So many Americans are so badly housed, however, that the goal might have been allowed to stand despite the sharp decline in the rate of population increase.)

Indicative planning would reduce the danger that, as we pursued one goal, we would frustrate attainment of others. For planning would require that proposed national goals and the means for attaining them be examined for consistency with other goals and means, and the totality of the goals would be considered in relation to the availability of the resources to achieve them.

That examination would force attention to determination of priorities since, obviously, all national goals cannot be attained simultaneously. Consideration would thus be compelled of the opportunity costs of each proposed goal in terms of the others to be postponed or only partially attained during the time span of the plan.

This does not mean, of course, that every goal set will be reached on schedule. Indicative planning never will be that perfect. But indicative planning should help to increase the likelihood that, as the Nation continues to establish goals for itself, they will be realistic, realizable within pre-determined time frames and set with better awareness of the consequences for other goals.

Forecasting

Indicative planning also would require forecasting. Forecasting is an imperfect art but a necessary one; it is impossible to undertake any endeavor that cannot be completed immediately without forecasting, explicitly or implicitly, what may happen to affect the work while it is in progress.

For indicative planning purposes, a reasonable sequence would be to forecast first what is likely to happen during a specified period if everything remains unchanged and then to forecast the situation as it would be if certain new government programs were to be undertaken or certain old ones abandoned or modified. This is the sequence followed under the new Congressional budget process. The "current services" budget tells Congress what to expect in the way of revenues, expenditures, and deficits or surpluses if no legislation is changed. Then forecasts are made of the effects on those magnitudes of legislation under serious consideration. The forecasts usually cover a 5-year period.

Obtaining awareness of the ramifying consequences of government actions would necessitate forecasting of regional, sectoral (e.g. manufacturing, construction, transportation), and key industry developments as well as overall national magnitudes such as Gross National Product, consumption, and investment expenditures, etc. But this, also, is no different in principle from what government presently does. Many of the separate governmental agencies already find themselves compelled to forecast, frequently in considerable industrial and product detail, the future course of such matters as employment, investment, output, inventories, and prices in the segments of the economy within their respective jurisdictions. Nowhere, however, is there any agency charged with reviewing these separate forecasts in a systematic way to determine whether they are consistent among themselves and with modifying them to the extent required for consistency in order to try to improve their reliability.

A publication entitled "U.S. Industrial Outlook 19__," issued annually by the Department of Commerce, illustrates both the detailed nature of present government forecasts and the absence, in this case within the same agency, of meaningful efforts to achieve consistency among them.

The 1976 edition, published at the beginning of the year, includes appendices that present forecasts (called "projections") of the value of 1976 shipments for 182 manufacturing industries and of 1976 sales (or similar measures) for 42 non-manufacturing industries, including construction, various parts of the communications and wholesale and retail trades industries-and education and health services. (The detailing is even greater than those numbers suggest because the text presents similar forecasts for subcategories of some of the industries listed in the appendices.) In addition, the text includes a chapter on transportation with ton-mile forecasts for six separate forms of freight transportation.

Moreover, the forecasts for many if not most of the industries covered extend to a range of measures other than shipments. Depending upon the industry, the text presents forecasts of such matters as production; the quantity, as well as the value, of shipments (the two together involving a forecast of prices); exports, imports, and domestic consumption; and employment, both total and production worker.

Ten-year, as well as one-year forecasts are presented for many of the industries covered. "Projections" of all or some of the details mentioned above are given for 1985 as well as for 1976.

Taken as a whole, the Commerce Department publication would have a familiar look to a visitor from one of the Western European countries that engages in a highly detailed form of indicative national economic planning. It bears a strikingly strong resemblance to the volumes issued by the governments of those countries embodying the specifics of their respective plans (although few, if any, are as detailed as the Commerce Department's publication).

There the resemblance ends, however, for there is only minimal effort in the Commerce Department's publication to achieve consistency among the separate forecasts even for closely related industries. Despite widespread recognition that everything in the economy relates to everything else, there is even less effort to achieve consistency for the totality of all the forecasts. The separate forecasts are prepared by specialists in the respective industries and are based upon such data as they have available with respect to the industry involved and their personal knowledge of it. They have access to a number of forecasts of such broad parameters as GNP and the rate of inflation but each analyst is free to decide which, if any, of those forecasts he or she will use without regard to those chosen by specialists in other industries.

Under the circumstances, the separate forecasts would add up to a coherent and integrated picture of the aggregate of all the industries they cover only through fortunate and highly improbable accident. Because coherence is lacking, firms that might base their own plans on the industry forecasts would be in danger of being badly misled.

Regardless of the quality of present forecasts, however, the essential point is that the forecasts for the components of the private economy that would both be required for and would result from national planning would by no means represent a sharp departure from existing policy and practice with respect to such forecasting.

In summary, none of the major aspects of planning -- neither goal setting, forecasting nor the enactment of legislation with impact upon the economy -- requires any drastic or radical change in the present nature of the Government's activities. Planning, as envisioned in this report, means nothing more than an effort to do better, in systematic and coordinated fashion, the same kinds of things our Government is already doing.

Planning and the Private Sector

The private sector would go about its business under planning just as it does today except that private institutions would have a better foundation of information upon which to build their own plans and therefore greater likelihood that the goals of their plans would be realized. Indicative plans, after adoption by Congress, would prescribe what the Federal Government should do; for the private sector they would merely describe the expected consequences of government actions.

Planning, and the forecasts it involves, would provide a guide for private as well as governmental decisions. The integrative approach required for planning would increase the likelihood of the smooth meshing of activities within and between the public and the private sectors. Barring the intervention of unforeseeable and uncontrollable events, private individuals and institutions would know in advance what government intended to do and what the consequences in the private sector were likely to be. The disruptive effects of the unpredictability of government actions referred to in the main report thus would be less likely to arise.

Private businesses and State and local governments would tend to operate within a common framework of assumptions, based upon the Government's forecasts (which probably would improve greatly in reliability). Using the same assumptions, their separate decisions would tend to be in harmony, thus reducing frictions in the economy. No one would be prevented from rejecting the Government ment's forecasts, substituting his own and acting on them. But, given the resources of government, including its ability to call upon forecasting as well as other capabilities in the private sector, government forecasts probably would turn out to be the best available. If after some time that proved to be the case, more and more private persons and organizations would come to rely upon the same assumptions and forecasts as the Government. As a result, the likelihood would increase that the economy as a whole would function much more smoothly than it does today.

Nowhere in all of this is there any basis for fears of infringement of freedoms or of increased "dictation" by government. Government will continue to legislate and regulate in order to prevent behavior damaging to the public welfare, whether or not there is planning. It will continue to stimulate some activities and to deter others, regardless of the presence or absence of planning. Who would argue that there is a greater danger to freedom if the Government conducts itself in coordinated and rational fashion than if it continues its present irrational, piecemeal approach to the nation's problems?

V. PLANNING DEMOCRATICALLY*

Yet planning does raise one fundamental question of democracy: Who is to plan for whom?

Opponents of national planning often express the fear that it would be a means whereby a handful of bureaucrats in Washington would impose their personal values and visions of the future upon the Nation as a whole.

That danger is certainly present in some planning procedures that have been proposed for the United States. It is inherent in proposals to place the entire initiative in planning in the hands of the President -- which, in practice, means the bureaucrats around him -- who would be called upon to develop the plan for presentation to Congress.

Who Sets Priorities?

It is almost a cliche of American politics that the 535 men and women in Congress cannot lead; that they can only react to Presidential initiatives. The cliche has been given added support by experience thus far with the new budget process. The indications are that, unless some wholly new factor intervenes, Congress is unlikely to make major changes in the priorities proposed by the President, whether in a budget or a plan.

The modifications in the President's budget made by Congress during the first two years of the new process were essentially marginal even if one includes the measures vetoed by the President. Apparently, the availability of a large staff in the Congressional Budget Office (CBO) is not sufficient, in itself, to assure the development and consideration by Congress of comprehensive alternatives reflecting substantially different priorities.

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* This section has a dual purpose. It is an explanation of the basis for the recommendation that representatives of interest groups be involved in formulating alternative plan options. It is also an answer to the argument raised in Commission meetings that the President and the members of Congress are elected to perform such tasks for the people and thus indicative planning, if it is to be undertaken at all, would best be left to them.

There are several possible explanations. One may be that the range of values within the CBO staff is too narrow. Another may lie in the bipartisan atmosphere in which the CBO operates, which tends to foster a false "objectivity" rather than a free expression of personal values. Economics, as has often been noted, is a value-laden science. The posture of objectivity does not eliminate the influence of values but often merely masks the acceptance of non-controversial, conventional values that tend to inhibit rather than promote imaginative proposals for the changes necessary in a dynamic society seeking to improve and enrich the lives of its people.

If a narrow range of values and the pressures of bipartisanship on staff are, indeed, the causes of the failure of Congress to make or even consider significant changes in the President's budget priorities, those factors would operate with equal force if a national plan rather than a budget were under consideration. The answer, of course, is not to rely on staff but to look elsewhere for alternatives to the President's proposals -- to empower groups with different interests and value systems to propose alternative plans reflecting their respective values.

Whatever the reasons for the absence of major Congressional changes in the President's budget priorities during the past two years, it seems evident that if such changes were not made in a Presidential election year, by a Congress that was overwhelmingly of the opposite party from the President they are even less likely to be made, whether in a budget or a plan, if the President and the Congressional majority are of the same party.

Thus, if the initiative in planning were to be left entirely to the President, the result could well be imposition by the bureaucrats serving him of their values and their will upon the rest of us.

Limitations of present forms of public participation

In any event, limiting the planning process to interplay between the President and Congress, the former proposing and the latter disposing, would not permit adequate public participation. Yet, since planning, by definition, would be designed to shape the Nation's future for years ahead, it is supremely important -- far more so than with respect to any individual item of legislation -- to achieve maximum public participation in the planning process. Only with such participation can there be any assurance that the plans that ultimately emerge from the process will reflect as closely as possible, as in a democracy they should, the vision of the desired future shared by the majority of the citizenry.

Congressional hearings, at best, allow for only limited public participation. Often they are merely pro forma. Even when they are not, significant elements in the population often face insuperable difficulties in presenting their positions effectively,for lack of the required research and writing resources. This is particularly true where the legislation involved is at all complex.

Indicative planning, of course, presents far more complexities than any single item of legislation because it concerns itself with the impact of the totality of governmental actions on all significant components of the public and private sectors. In most cases, witnesses in hearings on a proposed plan, who favored major shifts in its priorities, would be helpless, for example, to trace the ramifying effects of their proposals throughout the economy. They would thus be unable to reply to such highly pertinent questions as how much of what else contemplated by a proposed plan they would have to -- and would be willing to -- sacrifice in order to attain their goals. All the advantages in hearings would lie with those -- inevitably major banks and industrial corporations, plus, possibly, a few big consultant organizations financially dependent upon business clients -- who had large and sophisticated staffs and access to advanced computers. They alone would be able to offer Congress coherent alternatives to plans proposed by the President.

Moreover, the public is best able to react, to make its own will known, only when presented with clear-cut alternatives. The same is true of Congress. The legislative history of the statute that created this Commission includes repeated references to the need for "alternative options." Presumably, what was desired were genuine alternatives, not mere minor variations on a basic theme. The latter, however, would probably be all that were available if the group of persons mandated to develop the options adopted a series of alternatives by a majority vote. All their alternatives would arise out of the same sets of values as all the others compromised to develop a majority. The range of alternatives would be even narrower if individuals in the group were all Presidential staff or appointees. In that case, the only options provided would be those that fitted neatly within the framework of the President's values and ideology.

Planning and value systems.

There are no effective means to divorce the preparation of planning alternatives from the value systems of those preparing them. To insist that the individuals involved be "objective" would be operationally meaningless. Where human affairs are concerned there are no truly objective individuals. No one can divorce himself from his values. It is doubtful, in fact, that there is anyone sufficiently conscious of his values and associated biases to be able to suppress or fully compensate for them even if he should desire to do so.

Suppose, nevertheless, that it were possible to gather a group of objective individuals. An insurmountable problem would remain. How would objective people go about determining which alternative planning options they should present to the President, the Congress and the public?

Planning implies goals. Planning alternatives offer choices among sets of goals. There are many different goals and combinations of goals that individuals and groups in our society might wish to achieve. But goals are inseparably linked with values which, by definition, are subjective. How, then, can objectivity help in the choice of the goals toward which the alternative plan options are to be directed? Perfect objectivity would require that alternative plans be developed for every conceivable combination of feasible goals. The number of alternatives would approach infinity. The end result would be utter confusion. Rational choice, which would require comparison of all the alternatives, would be impossible. The democratic process would be rendered inoperative, choked to death by a superabundance of alternatives.

Inevitably, the "objective" providers of alternatives would either limit themselves to proposing options reflecting their own values, or if they were exceptionally conscientious, they would add one or more reflecting their own conceptions of values held by others.

Why not let those others speak for themselves? Why not face up to the fact that planning and value systems are inextricably intertwined and take advantage of that fact to stimulate and enrich the debate regarding the goals of planning?

Direct involvement of groups with diverse values.

Genuinely democratic planning, offering the public a choice among real rather than superficially different alternatives, requires the involvement at the most strategic places in the planning mechanisms of individuals representing divergent interests and values to develop plan options that are equally divergent. Nothing less than the placement of such individuals in the topmost echelon of the agency charged with developing alternatives will serve the purpose. For it is essential, in order to promote vigorous public discussion and debate, that the alternatives presented to the public have equal status. It should be obvious that a plan developed by a Government agency would get far more attention in the media and, with the imprimatur of Government, would carry overwhelmingly more weight with the public than a plan developed outside the Government by, for example, a consumer or labor organization (assuming such organizations had the resources to develop comprehensive and coherent plans -- which they do not).

If, however, those organizations were inside the agency responsible for developing alternatives, with access to all the relevant resources of government and operating with the same data base and the same methodologies used by other groups represented in that agency, the result would be quite different. The options they proposed would have equal status with those proposed by all other groups represented in the agency and would be far more likely to get serious consideration.

The individuals representing the interest groups in the option-generating agency would not wear masks of "objectivity" but would openly profess who they are and what they believe. The citizenry would be able to examine the fruits of their efforts fully aware of the interests, values,and biases out of which they grew. There would be no false labelling.

If a plan reflects a vision of the Nation's future, as it does, groups with different values are bound to have different visions. Why should not those visions be allowed to compete on equal terms in the free marketplace of democracy?

It would be impossible, of course, to provide for the representation of every interest and viewpoint in the option-generating agency. Aside from making that body totally unwieldy, representation of many groups would result in a proliferation of alternatives that would confuse the public and provide no focus for the public discussion and debate that is crucially important if the plan ultimately adopted is to be reasonably in accord with the desires of the majority.

Individuals and groups with views different from those represented in the planning agency should be encouraged and, where appropriate, helped to make their wishes known before the alternatives are developed, and their reactions known after the options are placed before them. Each interest group inside the agency would want to build the broadest possible base of public support for its alternative. Thus, the non-participating groups could be certain that their views would be given serious attention and, in many cases, would be taken into account in the alternatives developed by one or another of the represented groups. After the alternatives had been published, criticisms of them by the non-participating groups would play a role (under the recommendations made below) in shaping the planning decisions of the President, who would want broad public support for whatever plan he chose to propose (which could be different from any of the alternatives presented by the agency) and by the Congress, which would want to be sure of the political palatability of the plan it ultimately adopted (which could be different from both the agency's and the President's plan options).

Precipitating a national debate

The presentation of sharply divergent, clear-cut alternatives, all having equal status, would be certain to precipitate a national debate, which quite likely, would involve as widespread and active participation as a Presidential campaign -- possibly more. For each of the alternatives would say something to every member of the public about the possible shape of his, his family's and his country's future.

Although the planning process is complex, the public would have no difficulty grasping the basic issues presented by the alternatives. The ill-housed would want to know how much home construction the options respectively contemplate. Parents would be interested in how much is provided for education. Those whose health is precarious would focus on the medical care components of the options. State and local government officials would concentrate on the amounts and kinds of Federal assistance offered by each option as well as their respective regional impacts. Environmentalists would apply their criteria. The poor would examine the income-support alternatives. Corporation executives would pay particular attention to such matters as expected capital formation, the growth rates forecast for industries that buy their products, the relative growth rates of regional consumer markets, etc. Nearly everyone would be concerned with the respective tax implications of the alternatives.

Probably no one would find any of the options completely satisfactory with regard to the particular matter of most concern to him. He would then, quite likely, compare them in terms of features that he considered of secondary and tertiary importance. Thus, the individual citizen, in his own way, would be brought face to face with the problems of priorities that had previously confronted those who had prepared the separate options. He would have to decide about accepting less of some things in order to get more of others.

Choice would be facilitated for even the least sophisticated citizens because each of the options would display certain general tendencies. It seems reasonable to expect, for example, that the alternative proposed by industry representatives on the planning agency would emphasize private investment, supported by tax measures and various types of incentives and subsidies appropriate to that purpose and based upon changes in income distribution designed to make the required capital available. Labor members, in contrast, might put their emphasis on housing, urban rehabilitation, public services and facilities involving such matters as education and health, occupational health and safety, an attack on poverty through a demogrant or negative income tax, and the like. Each group might make certain compromises in the direction of the others' goals in an effort to broaden the base of public support for its proposals or to win allies among other members of the agency*; but clear distinctions would remain.

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* Some compromises of goals would be required, in any event, because (as noted below) each option would have to be coherent. The industry option, therefore, would have to provide for sufficient consumer purchasing power to take off the market the increased flow of goods and services resulting from high private investment. The labor option would have to allow for sufficient saving to permit the public and private investment necessary to achieve its objectives.

With the alternatives thus laid out before him, the individual citizen would be able to make a choice that, from his standpoint, would be an intelligent one.

With so much at stake for so many, it can be predicted with confidence that newspapers and magazines would take editorial stands favoring one alternative or another or recommending changes in one or more of them. Columnists and television and radio commentators would express their views.

Pollsters would take the public pulse repeatedly, as the debate progressed, to report which option had the most support and how many persons wanted what changes in one or all of them. The President and members of Congress would carefully monitor the editorials, comments, and polls to help them decide how they should play their respective roles in the planning process.

A significant contribution would be made to the revitalization of American democracy because many who have despaired of the political process, thinking it a sham and shallow contest that makes no difference in the end, would be brought back into it. They would have vividly before them the possibility that, by making known their support for one plan alternative or another, individually and through their organizations, they could effect real differences in their lives. The focus would be turned from a combat of personalities to disputes concerning issues. The health of a democracy derives not from the blurring of differences but from open disagreements openly debated.

The emphasis on the democratic component in planning is central to this report. It is the basis for the most important features of the recommendations shortly to be listed -- those dealing with the composition of the option-generating agency and with the methods by which alternatives are to be prepared and presented. It was deemed advisable, therefore, to present the main reasons for those recommendations at this point, deferring explanations of the other recommendations until later.

VI. RECOMMENDATIONS

The structures and processes recommended for indicative planning are described in this section. As indicated, a later section will present explanations of features of the recommendations the reasons for which may not be self-evident.* The recommendations are submitted with no claim made that they represent the only or the best possible method of achieving the desired purposes. It is those purposes that are of primary importance. The details proposed are mere means, subject to alteration and improvement based upon public and Congressional discussion and debate.

Whatever the defects of detail from which the recommendations may be found to suffer, they nevertheless show that it is possible to establish democratic and reasonable effective planning institutions and procedures that would fit, without difficulty, into the existing governmental framework.

One possible misconception should be laid to rest at the start. At first glance, the recommended procedures may seem forbiddingly complex. In fact, they are not significantly, if at all, more complex than those now involved in Presidential preparation and Congressional review and adoption of the budget.

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*The explanations have been separated from the recommendations in the hope that presenting the latter in uninterrupted sequence would facilitate understanding of how the institutions involved would relate to each other in the planning process and how that process would move from each step to the next. The flow of the process has nevertheless had to be interrupted at times to describe an institution or certain of its features.

Such complexities as there are (and this is also true of the budget process) derive in major part from the nature of our Constitution. Under a parliamentary system, the governing party or coalition can present a comprehensive plan accompanied by all necessary implementing legislation, including the budget, with confidence that its parliamentary majority will enact the whole as an integrated package. Our constitutional separation of powers -- combined with lack of the tight party discipline engendered by a parliamentary system plus the autonomy of Congressional committees and the dispersion of economic responsibilities among them -- makes it exceedingly difficult to coordinate individual items of legislation so that they add up to an integrated and coherent national economic plan. It seems unlikely that that will ever be possible. The recommendations of this report are designed to produce a reasonable approximation of such a plan.

Summary of Recommendations

To help put the detailed recommendations in proper focus, their main features may be summarized broadly as follows:

Formulation and publication of plan options -- A Commission would be created composed of three public members and two each representing consumers, labor and business, respectively. Any two Commissioners would be free to develop and propose their own plan option. A new Center for Statistics and Policy Analysis would help the Commissioners to develop coherent and feasible options. All the options developed in the Commission would be presented simultaneously to the President, the Congress and the public.

Presidential response -- The President would be required to respond to the options in his Economic Report. He could adopt or modify one of the options prepared in the Commission or he could propose a different option developed by his staff, also with the aid of the new Statistics Center.

Congressional action -- The Congressional Joint Economic Committee (JEC), after consultation with the appropriate legislative committees, would adopt one of the options presented by the Commission and the President, modify one of them or develop its own. The JEC would be assisted by a Congressional Planning and Budget Office (which would incorporate the present Budget Office) working closely with the new Statistics Center. Certain numerical goals of the plan proposed by the Joint Economic Committee, upon approval by Congress, would be required to be included in the concurrent resolutions on the budget provided for under the present Congressional budget process. The JEC, in liaison with the appropriate legislative committees, would monitor proposed legislation for conformity with its plan and the latter's numerical goals. The budget adopted by Congress would be required to be consistent with those goals and thus would become the main instrumentality for implementation of the plan.

Follow-up -- The President would be required to use his discretionary powers in a manner consistent with the numerical goals. The Federal Reserve Board would be required to provide the volume of credit needed to attain those goals and, if necessary, to allocate credit to facilitate their attainment.

Points to Note

Aside from the effort to make the planning process as democratic as possible, three other features of the recommendations should be emphasized.

The first is, that by tying planning into the Congressional budget process, a high degree of assurance is provided that the plan ultimately adopted would not be merely an expression of good intentions but would be implemented through appropriate legislation and appropriations.*

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*The Humphrey-Hawkins Bill provides a somewhat similar, although more limited, tie-in to the budget process.

Second, the institutional changes involved are few. Two new agencies are recommended, a National Planning Commission and a Center for Statistics and Policy Analysis. (The latter, which was recommended by the Commission's Advisory Committee, is needed even in the absence of planning.) The Statistical Policy Division of OMB and the Regulatory Reports Review Group of GAO would be transferred to that Center. The Congressional Budget Office would be expanded, becoming a Planning and Budget Office with separate divisions for the planning and budget functions. The President and the Council of Economic Advisers would be provided with staff to assist with their respective roles in the indicative planning processes. There is a strong possibility that these staff needs could be met wholly or largely by reassignment of personnel already in the Executive Office of the President. No reorganization of Congressional committees would be required (although, of course, planning as well as other legislative activities would be facilitated if committee jurisdictions were more logical).

Third, recognizing the imperfections of the arts of planning and forecasting, even as applied to the relatively short-run future, the recommendations provide for frequent revisions by Congress of the plans that it adopts.

Why so Much Detail?

The recommendations are set forth below in considerable detail. The question of how much detail to provide presented a dilemma. If too sketchy an approach were to be taken, the allegation might be made that many pertinent problems had not been considered and resolved. Opponents of the proposal's broad objectives would attack it on that ground. On the other hand, a detailed presentation risks a dual danger: first, that the proposal may seem far more complex than it actually is and, second, that opponents of the general objectives involved could seize on defects of relatively unimportant details in an effort to discredit the proposal as a whole.

Since one of the purposes of this report is to show that democratic and reasonably workable indicative planning can be carried on with minimal changes in existing government organizations and procedures, it seemed worthwhile to risk erring on the side of too much rather than too little detail. The detailed approach has the further advantage of providing answers to reasonable questions that have been asked and others that may come to mind as the proposal is considered.

It should be emphasized once again, however, that the details are presented tentatively, in many cases essentially for illustrative purposes, and that they are open to such modifications as may be revealed to be advisable.

Details of Recommendations

/NOTE: In order to avoid confusion with the National Commission on Supplies and Shortages, the proposed National Planning Commission will be referred to as the "NPC"; "Commissioners" will mean members of the NPC; and "Advisory Committee," when the initial letters are capitalized, will mean the Advisory Committee on National Growth Policy Processes./

1. Establishment and composition of Commission -- A National Planning Commission (NPC)* should be created by Congress as an independent agency. It should consist of nine persons serving staggered seven-year terms. Three of the nine should serve full-time and should represent the general public. They should be appointed by the President, in consultation with the Speaker of the House, the Majority Leader of the Senate and the Minority Leaders of both Houses, from among persons who had had no extensive involvement with any of the interest groups to be represented on the NPC. One of the three would be designated

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*It could, just as well, be called a "National Growth and Development Commission," as proposed by the present Commission's Advisory Committee. The name "National Planning Commission" is used here to avoid confusion with the Advisory Committee's recommendations.

by the President as Chairman. The remaining six members should serve part-time and should consist of two representatives each of labor, business, and consumers, with one of the last being a person whose background reflects consumer concerns with environmental matters. The part-time members should be appointed by the President from lists of nominees agreed upon by the major organizations of each of the respective interest groups they would represent on the NPC. All appointments to the NPC should be subject to the advice and consent of the Senate. Each of the part-time members should be entitled to appoint a full-time deputy of his own choosing to the staff of the NPC to speak for him, and to have equal status with the full-time Commissioners with respect to all matters involving the day-to-day operations of the NPC, but not on matters of policy.

2. Formulation of alternative plans -- The members of the NPC should be required, at least four months prior to the convening of each new Congress, to submit to the President, the Congress and the public alternative Full Employment and Balanced Growth Plans, each supported by at least two Commissioners (with none supporting more than one plan), for the six-year period beginning with the next even-numbered year, together with more detailed plans for the first two years of the period consistent with the respective six-year plans. Each set of two- and six-year plans should also be consistent with long-range policy goals (requiring more than six years for attainment) specified by their respective sponsors among the Commissioners.*

3. Specifications for plan alternatives -- Each of the plans should be required to specify its short-run, intermediate and long-term goals, including, ✓in the two-year plans, numerical goals for employment, production, purchasing power, investment and consumer spending, plus other important quantitative and

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*"Sets of plans" will be referred to hereafter as simply "plans" unless otherwise indicated by the context.

qualitative goals. Any plan that did not provide for full employment (defined as the availability of a job at fair wages for the work involved for everyone willing and able to work) should be required to include a statement of the reasons for the shortfall and what would be required in the way of public service employment, public works, and other programs to take up the slack. A statement of important social, as well as economic, consequences should accompany each plan. The supporters of each plan should be required to specify the costs and benefits of their plan as compared to those proposed by the other Commissioners.

4. Program and forecasts -- Each two-year plan also should be required to include a program of executive and legislative actions to implement it, a forecast of the effects of its implementation on (a) each region of the country, specifying employment levels, per capita income, environmental impact and other significant matters; (b) production and employment by sector and in key industries; and (c) employment in Federal, State, and local government. (As noted elsewhere, such details should not be required in the early years of planning.)

5. Monitoring and adjustments -- The NPC should monitor progress toward the numerical goals approved by Congress (see below). As early as possible in each even-numbered year the NPC should report alternative options to the President, the Congress, and the public (each ~~option is~~ to be supported by at least two Commissioners) for adjustments to ~~and which~~ deal with ~~adjustments for~~ events unforeseen at the time of Congressional approval of the goals or with other problems that impede their attainment as well as inconsistencies due to Congressional action during the preceding year.

6. Regional considerations -- In developing their respective plans, the Commissioners should take into account, for purposes of meeting regional needs and assessing regional impacts, data and recommendations supplied by appropriate regional bodies. (The Advisory Committee has made recommendations looking toward the creation of regional organizations for cooperative Federal and State development planning which might serve that purpose.) Such bodies, if they would normally

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include only governmental representatives, should have added to them, for indicative planning purposes, spokesmen for the interest groups represented on the NPC plus as many other such groups as it may be practicable to include.

7. Advisory committees-- The NPC should establish advisory committees for each sector of the economy and for each key industry to bring to the attention of the Commissioners problems requiring consideration in the formulation of plans and recommendations for dealing with them. Similar advisory committees should be established to perform similar functions in relation to matters that cut across industry and regional lines such as employment and training (formerly called "manpower") and science and technology. Additional temporary advisory committees should be established as needed. The members of each advisory committee should include representatives of the interest groups represented on the NPC plus as wide a range as practicable of other groups with pertinent interests or views, and independent experts on the subject matter to be considered by the committee.

8. Public participation -- The NPC should be required to apply the recommendations of the Advisory Committee on National Growth Policy Processes with respect to advisory committees and other forms of public participation, with particular regard to obtaining the views of organizations, groups and individuals not represented on the NPC and its advisory committees. The NPC and its advisory committees should be empowered to hold hearings to obtain such views.

9. Contracting for studies -- The NPC should be provided with funds to contract with government and private agencies for any studies or analyses it may require that would not otherwise be available. All Federal agencies should be required to cooperate with the NPC.

10. Funding -- As recommended by the Advisory Committee (with respect to its proposed National Growth and Development Commission (NGDC)), the legislation that establishes the NPC should provide authorization sufficient

to see it through an initial eight-year* lifespan and should provide that, like independent regulatory agencies today, its annual budget be submitted to Congress without intervention from the Office of Management and Budget.**

11. Center for Statistics and Policy Analysis -- As also recommended by the Advisory Committee, Congress should create a new independent Center for Statistics and Policy Analysis within the Executive Branch to coordinate and rationalize the Federal Government's collection and analysis of basic economic and social data. This new unit should develop its own set of integrated methods including a model of the American economic and social structure, which should be detailed enough to provide an adequate overview of the sectoral and regional implications of proposed economic policies and to deal with possible future events.

The Statistical Policy Division of the Office of Management and Budget and the Regulatory Reports Review Group of the General Accounting Office (with the latter given the same authority as the former for approving forms and ensuring the quality and comparability of data) should be transferred to the Center.

12. Contracting powers and funds for Center -- The Center should be provided with funds to contract for collection of data, for analyses and for special studies with other government agencies or with private organizations. It should be empowered to establish advisory committees as needed with representation on the same basis as the NPC's advisory committees. Its staff should maintain close liaison with appropriate personnel in the line agencies, particularly with individuals engaged in the collection and analysis of data.

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* For reasons noted below, a longer period might be more reasonable for the NPC.

**For reasons previously noted, adoption of this recommendation of the Advisory Committee does not extend to its recommendation for a "sunset provision."

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13. Assistance in preparing alternative plans -- To prepare their respective plans and assure that they are feasible, coherent and free from undesired consequences, the Commissioners should submit detailed specifications of their goals and other appropriate guidelines to the Statistics Center, which, by use of its modeling and other resources, should develop them into comprehensive, fully integrated plans with related forecasts and trace their probable consequences for each sector, key industry and region. Where analysis by the Center indicates that the specified goals are inconsistent and/or would lead to undesirable consequences, the Commissioners sponsoring the proposed plan should advise the Center of the consequences they wish to avoid and, if necessary, of modifications of their goals aimed at achieving coherence. The process should be repeated until the plan is coherent and acceptable to the Commissioners sponsoring it. The Center should use the same assumptions, data base and methodology in connection with all of the plans proposed by Commissioners.

14. Subpoena power -- The Center should have subpoena power to obtain directly, or through a line agency designated by it, data and other forms of information necessary for the performance of its functions, including analysis of,and formulation of, plans for Commissioners.

15. Transmission and publication of plan options -- The respective plans developed by the Commissioners should be transmitted simultaneously to the President and the Congress and published for general distribution to the public.

16. Analyses of major policy issues -- In addition to its planning functions, the NPC should (as recommended by the Advisory Committee with reference to its proposal for a National Growth and Development Commission) "periodically select major national policy issues for comprehensive analysis...." The analysis would identify and describe a problem and present alternative feasible means of approaching it, including such matters as the cost of each alternative,

[and] its probable national, sectoral and regional impacts. Each alternative presented should have the support of at least two Commissioners. There should be no substantive limitation on the scope of such investigations by the NPC.

17. Presidential Response -- The President should be required to respond to the plans, the alternate year adjustments and the options relating to major policy issues transmitted to him by the NPC. The responses to the plans should be presented in his Annual Economic Report.* The President should be free to adopt as his own one of the options submitted by Commissioners, modify it or reject all of them in favor of another of his own devising. He should be required, however, to set forth his reasons for rejecting each of the Commissioners' options that he does not accept and, if he modifies one of those options, his reasons for so doing. If he formulates his own plan, it should be equally detailed and should otherwise conform to the requirements applicable to Commissioners' plans, including verification of coherence by the Statistics Center using the same assumptions, data base, and methodology as for Commissioners' plans.

18. Response to major policy and adjustment options -- The President's response to the NPC's major policy options should be made in the form of a report to Congress, which should simultaneously be made public. The report could be made at any time he deems fit but no later than the time of issuance of the second Economic Report (in which it could be included) following submission of the options by the NPC. Here also the President should be free to adopt one of the options, to modify one of them, or to reject them all in favor of his own, but he should be required to give his reasons for whichever course he takes.

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*"Annual Economic Report" for the purpose of these recommendations includes the Annual Report of the Council of Economic Advisers.

His response to adjustment options should be presented to Congress as far in advance as possible of the deadline for action on the second concurrent resolution on the plan.

19. Executive Office staff -- The President should be given staff, placed within the Executive Office of the President wherever he deems most appropriate, to assist him, in cooperation with the Council of Economic Advisers (CEA), in evaluating plans and plan adjustments proposed by Commissioners and, if necessary, in preparing his own plan or adjustment. The staff of the Council of Economic Advisers should be increased to the extent required by its involvement in the planning process, including presentation in the Economic Report of the plan adopted or developed by the President. Both groups should be empowered to call upon the Statistics Center for any assistance they may require.

20. Consistency between budget and plan -- The President's budget should be consistent with the plan (or adjustment) that he transmits to Congress and should be designed to facilitate implementation of that plan.

21. Joint Economic Committee -- In acting on the augmented Economic Report, the Congressional Joint Economic Committee (JEC)* should compare the plan included in it with those of the Commissioners' plans which the President rejected or modified. The JEC should determine which, if any, of the plans before it should be recommended to the Congress, with or without modifications, or it should develop its own plan. Its report to the Congress should set forth the reasons for its decision. Any plan developed by the JEC should meet the same requirements as those applicable to the President's and the Commissioners' plans.

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* Wherever mention is made of the JEC with respect to matters to be acted on separately in the Senate and the House it is intended that only the JEC members of the respective bodies would be involved, i.e., the JEC members in each body would be analogous to the separate Senate and House Budget Committees. The Humphrey-Hawkins bill includes similar provisions regarding JEC members in the Senate and House, respectively.

22. Coordination with legislative committees -- As the first step in carrying out its planning responsibilities, the JEC (i.e., the JEC members in the Senate and the House, respectively) should obtain the comments and recommendations of the appropriate legislative committees on matters within their respective jurisdictions that would be affected by any of the plans transmitted to Congress by the President and the NPC. If the JEC decides to develop its own plan, it should obtain similar comments and recommendations on it from the legislative committees and, on the basis of them, should make such modifications in its proposed plan as it deems advisable before reporting its plan. The JEC also should hold public hearings on the alternative plans.

23. Congressional Planning and Budget Office -- The JEC should be assisted in its planning activities by the staff of a Congressional Planning and Budget Office (CPBO) which should incorporate the present Congressional Budget Office. Separate Planning and Budget Divisions within the new Office should have equal status. The Director of the enlarged Office should be responsible for coordinating the work of the two Divisions. The CPBO should be empowered to call upon the Statistics Center and the staff of the NPC for any assistance it may require.

24. First concurrent resolution on plan -- The JEC should submit for approval by Congress in the form of a concurrent resolution, to be voted on before the first concurrent resolution on the budget, certain numerical goals for the next two fiscal years reflecting the broad objectives of the plan it reports out, such as employment, production, purchasing power and investment, together with additional quantifiable goals with respect to matters it considers of major importance. ✓

25. Coordinating the budget with the plan -- The numerical goals approved by Congress should be binding upon the Budget Committees of both Houses and their budget recommendations, embodied in their respective first concurrent resolutions on the budget, should be consistent with them. The Budget Committees should be

assisted in their efforts to achieve consistency by the Congressional Planning and Budget Office working in cooperation with the Statistics Center.

26. Coordinating legislation with the plan -- Legislative committees preparing to report out bills with significant economic impact should submit their drafts to the JEC, which should comment on their consistency with the plan it had approved (or, if Congress has already acted on them, the numerical goals it had approved) and should consider such comments before reporting the bills in question. The JEC, acting by majority vote, should be empowered to determine which bills have significant economic impact and to raise points of order, forcing recommital to committees of any such bills it has not had opportunity to review. Upon request by the JEC, the legislative committees should include in their reports the comments of the JEC on the bill in the form it is reported out.

27. Second Concurrent Resolution on the plan -- During each session of Congress, the Planning and Budget Office, working in close cooperation with the Statistics Center, should report periodically to the JEC and to the members of Congress regarding the consistency of the legislation adopted or in process with the plan reported out by the JEC and, in particular, with the numerical goals of the concurrent resolution. Before Congress acts on the second concurrent resolution on the budget, the JEC should be permitted to submit revised numerical goals for approval in a second concurrent resolution on the plan. The second concurrent resolution on the budget should be consistent with the goals approved.

28. Amendment of budget resolution -- If a majority of the JEC questions the consistency of the Budget Committee's proposed second concurrent resolution on the budget with the Congressionally approved numerical goals, it should obtain a report from the Statistics Center on the issue. If appropriate,

the Chairman of the JEC* should propose an amendment to the budget resolution based upon that report.

29. Review by Center and CPBO Upon the adjournment of each session of Congress in an odd numbered year, the Statistics Center, in cooperation with the Congressional Planning and Budget Office, should examine all legislation with significant economic or social impact adopted during that year to determine its aggregative consequences. It should describe and forecast those consequences in the same detail as is required for plans developed by Commissioners and the President. The Center should report its findings to the NPC, the President, the Joint Economic Committee and the public, and should call attention to any inconsistencies or lack of coherence resulting from Congressional action and to any numerical goals in the second concurrent resolution on the plan made unfeasible by those inconsistencies. The report should be the starting point for consideration of adjustments to be proposed to the next session of Congress.

30. Plan adjustments -- The same Congressional process outlined above should apply to alternate year adjustments using the same numerical goals as in the preceding year unless modifications in the latter are proposed by the JEC and approved by Congress before adoption of the second concurrent resolution on the budget.

31. Presidential follow-up -- The President should be required to use his discretionary powers in a manner consistent with the numerical goals specified in the second concurrent resolution on the plan. In determining how to use those powers for this purpose he should, when appropriate, obtain the advice of the Statistics Center and the NPC.

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* I.e., the Chairman of the JEC in the body of which he is a member and the JEC member designated as chairman of the group of JEC members in the other body.

32. Federal Reserve Board -- The Federal Reserve Board (FRB) should be required to supply the volume of credit necessary to reach the goals (to the extent that the legislation adopted permits their attainment) specified in the second concurrent resolution on the plan and, if and when necessary, to allocate credit to facilitate attainment of those goals. The Chairman of the FRB should be required to report to Congress at least semi-annually on actions taken by the Board which might have an impact, positive or negative, on achievement of the goals.

VII. EXPLANATIONS OF RECOMMENDATIONS

Explanations are presented in the following pages of those features of the recommendations the reasons for which may not be readily apparent. Again, it must be stressed that the recommendations are not cast in concrete but rather are designed as a basis for discussion directed toward their improvement.

Establishment and composition of NPC (Recommendation 1) -- The proposed staggered terms of NPC members are intended to provide continuity and independence. Consultation with Congressional leaders regarding the three public members to be appointed is intended to assure both bipartisanship among them and responsiveness to both the President and Congress, as the latter have occasion to deal with NPC. (Presumably, the Congressional leaders would name one person from each major party, although that could be explicitly provided.)

Part-time membership for Commissioners representing interest groups would enable them to continue active in organizations of their respective groups and thus continue to be representative of them. It probably should be required that they resign from the Commission if they break ties with their respective organizations.

Nomination by the major organizations of each interest group is proposed to assure that the interest group members of the NPC are genuinely representative. If the separate major organizations of any interest group are unable to agree on submitting a single list of nominees (not in excess of a number to be specified), a procedure could be used similar to that often used in selecting arbitrators in labor-management disputes. Under that procedure, an association of arbitrators, for example, submits a list of names from which each party, in turn, strikes one name at a time until only one is left. In the case of nominees to the NPC, each major organization could be asked to propose a specified number of persons. Each organization, in turn (with the order to be determined by lot), would then strike one name at a time from the combined list until only the number of nominees to be submitted to the President remained. Such a procedure would impel each organization, all of which would desire direct representation on the NPC, to propose individuals acceptable to the others.

Full-time deputies of their own choosing are proposed for the part-time interest group NPC members for two reasons. The first is to assure that they are not put at a disadvantage relative to the full-time members. The second is to provide them with the technical assistance needed, from persons in whom they have full confidence, to guide them through the complexities of planning, and to communicate for them with the professionals on the staff of the NPC and of the proposed new Statistics Center.*

Formulation of alternative plans (Recommendation 2) -- The two- and six-year plan cycles are related to biennial Congressional elections. The six-year plans would be revised every two years for a new six-year period. Thus, new problems and opportunities would be taken into account promptly and there would always be a medium-term framework for the two-year plans. Submission of plans four months before the opening of each new Congress would allow sufficient time for public discussion to enable the President and Congress to take account of public sentiment in choosing among the alternatives proposed or in developing their own. The four months would include the periods of Congressional and Presidential election campaigns. Thus, the alternative plan options developed in the NPC would become campaign issues, tending to increase public interest and participation in planning discussions and giving the successful candidates additional guidance regarding the views of citizens.

The requirement that each alternative submitted by the NPC have the support of at least two members would assure that no more than four alternatives, at the most, could be presented. Probably the actual number would be smaller since each interest group represented would seek to give its alternative greater status in the eyes of the public, the President, and Congress by attracting the support of public members or of members representing one of the other interest groups.

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* The need for such deputies was suggested by experience with planning in France, where the union representatives in the planning process have been unable to represent their constituents effectively because of lack of technical expertise.

Specifications for plan alternatives (Recommendation 3) -- Numerical goals are needed as a basis for Congressional action along the lines recommended.* Numerical goals would not need to be as detailed for long-term plans as for the two-and six-year plans.

The requirement that each of the alternatives provide for full employment or include the reasons for the shortfall and a statement of what would be needed in the form of public service employment and similar programs to take up the slack is discussed in Section VIII of this separate report.

Statements of costs and benefits of the proponents' respective alternatives and comparisons with the costs and benefits of the other alternatives would provide important raw material for public debate and for consideration by the President and the Congress.

Programs and forecasts (Recommendation 4) -- Publication of programs to implement the plans, and forecasts of their effects, also would help to enlighten the public debate. Since the forecast requirement would apply also to any plan ultimately adopted by Congress (with the forecasts to be made for Congress by the proposed Congressional Planning and Budget Office in cooperation with the new Statistics Center), a framework would be provided for the planning done by industry and other private institutions and by state and local governments.

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*Some members of the Advisory Committee would require the President to specify similar numerical goals in his Annual Economic Report, together with programs to meet them. Others are hopeful that the President would do so voluntarily. Still others would leave it to the President's discretion while preferring that he not include such details.

Regional considerations (Recommendation 6)-- The Commission's Advisory Committee has properly emphasized the importance of regional factors in national growth and development policy. Those factors would have to be taken fully into consideration in the formulation of indicative plans. There would be need for systematic interchange of information and ideas as between the organizations responsible for development planning at the regional level and the NPC. It would be important, however, that the NPC have the benefit of the views of interest groups, whose concerns cut across state and local political boundaries, as well as of public officials, focused mainly on the problems of their respective jurisdictions. Thus, if regional organizations of the kind envisioned by the Advisory Committee are to be established, they should include (at least while national planning is under consideration in those organizations) representatives of the most important interest groups in each region.

Advisory committees and other public participation (Recommendations 7 and 8) -- A network of advisory committees would not only provide the Commission with information and insights unobtainable through other means but would also stimulate public interest and participation in the discussion of alternatives. The broadest practicable participation in each of the advisory committees would advance both purposes as would the hearings proposed to be held by both the Commission and its advisory committees.

The Advisory Committee on National Growth Policy Processes has made important and valuable recommendations concerning public participation. Among them is a recommendation for government financing* of the participation of private groups that meet certain carefully drafted criteria. The NPC should be provided with funds to be used for that purpose.

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*The Federal Trade Commission already has a procedure for providing financial assistance to interest groups participating in rulemaking.

The possibility should be explored of giving certain groups -- those speaking for interests not represented on the NPC but able to meet the criteria -- access to the new Statistics Center for purpose of reshaping one of the NPC plan options in accordance with their ideas or developing completely different alternatives. Such alternatives would not create the kind of confusion that would result from a proliferation of options emanating from the NPC itself because they would not have the same status as the (probable) three or four developed in that agency. The groups involved, however, would be enabled to present their positions more effectively. They might make useful contributions to Presidential and Congressional planning decisions.

Contracting for studies (Recommendation 9) -- Occasionally the NPC may find that neither its own staff nor the proposed Statistics Center has the competence to provide a needed study or analysis of a particular problem and that no other government agency does the kind of work required as part of its normal operations. The NPC should then be able to let contracts for the work. Where the studies or analyses are of a kind that the NPC might regularly or frequently require in the future, preference should be given to government agencies potentially capable of producing high quality results in order to develop the needed competence within the government.

Funding (Recommendation 10) -- As was previously indicated, an agency such as the NPC would be likely to make enemies. The danger would be even greater for the NPC than for the National Growth and Development Commission proposed by the Advisory Committee because the former would develop sharply differentiated alternatives one or more of which would be likely to arouse hostility in the White House and among some members of Congress. It would therefore be advisable to shield the NPC against financial starvation to the greatest extent practicable in order to protect its ability to perform its vitally needed functions.

The operations of the NPC (like those of any other agency) should be subjected to searching examination by Congress, in addition to normal oversight, at fixed intervals. It should be recognized, however, that a long shakedown period would be required before the NPC, under the best of circumstances, would be able to bring its performance up to reasonable expectations. In its early years, among other difficulties, it probably would have to operate on the basis of seriously inadequate data and analyses. The responsibilities proposed to be entrusted to the NPC, in any case, are too crucially important to be left unmet. For that reason, Congressional review should be directed toward improving performance rather than toward eliminating the function. Unfortunately, beyond the kinds of safeguards proposed and exhortation to Congress, there is little that could be done to protect the NPC fully against its potential enemies. Much would depend on the caliber of the persons appointed to the NPC and how well they carry out their responsibilities.

Center for Statistics and Policy Analysis (Recommendation 11) -- This Center, creation of which has been recommended by the Advisory Committee, is needed whether or not the Government embarks on indicative planning. Although the main report does not endorse the recommendation of the Advisory Committee for creation of the Center, the latter would be essential for effective performance even of the limited new functions recommended in Chapter 6 of that report.

The proposal to increase the authority of the Regulatory Reports Review Group in the General Accounting Office, made also in the main report, is necessary to improve the statistics compiled by the regulatory agencies and to make them comparable with the statistics of other agencies.

It should be emphasized that the recommendations of the Advisory Committee, which are adopted here, do not intend that the proposed center become "a national statistical monolith" or that "any other agency abandon its own econometric efforts in favor of reliance on a single central model."

Contracting power and funds for Center (Recommendation 12) -- The availability to the Center of contracting power and funds would not only enable it to obtain data and analyses needed for its operations but would also give it leverage in improving data collection and raising statistical standards in other government agencies. The latter would be faced with competition, in some instances, from private organizations.

Assistance in preparing alternative plans (Recommendation 13) -- The NPC should not duplicate, but rather should rely upon, the analytical and modeling capacities of the Statistics Center.

The proposal that the Center use the same assumptions, data base and methodologies in connection with all the alternative plans is essential to put them all on the same footing and to avoid diversionary disputes about the technical validity of the individual plan options. (This proposal is in line with one of the guidelines for improving policy analysis presented in the main report.) Organizations and individuals inside and outside government would be free, of course, to challenge the data, assumptions and methods. But such challenges would be equally applicable to all the alternative plan options.

Subpoena power (Recommendation 14) -- A great deal of data needed by the Government, not only for indicative planning but for existing programs as well, are withheld by industry and other sources. During the debates on the legislation that created this Commission, Senator Domenici described the difficultie the Government encountered in acquiring data relating to supplies and shortages.

With respect to oil drilling equipment he said:[1]

> The agency in charge of allocation does not know the facts. They do not think they have the total authority to get the facts.

Senator Taft pointed out that, "Even the FEO does not have the facts, particularly in the oil area."

During the deliberations of the present Commission, the members were given copies of a General Accounting Office report entitled "Impact of Shortages of Processed Materials on Programs of Vital National Interest." In the section dealing with electronic components, the report said:[2]

> We were unable to obtain data on specific industrywide output levels for electronics producers because the data was considered proprietary information.

In other words, only subpoena power could have obtained for the Government the data needed to determine output for the industry as a whole -- apparently publication of data for individual firms was not contemplated -- relating to a product of such crucial importance in modern technology, military and civilian, as electronic components.

Indicative planning, as well as many present activities of the Government, requires a firm factual foundation. Where the public interest is at stake there can be no valid right to withhold data (other than data affecting personal privacy) from a government responsible for protecting and advancing the public interest and welfare.

There is the additional fact, of no mean importance, that government statistical agencies, dependent entirely on voluntary private cooperation for the facts needed in their operations, are subject to intimidation* and in danger of becoming subservient to the providers of data. On the other hand, agencies equipped with subpoena power normally have little difficulty in obtaining data without actual use of that power which serves as a club behind the door.**

It has been necessary to deal with this issue at somewhat greater length than with most others because subpoena power is a highly controversial issue and because hard, solid, reliable factual information is an essential precondition for sound and intelligent indicative planning. The Full Employment Bill of 1945 (the basis for the much weaker Employment Act of 1946) recognized the need by providing subpoena power for the proposed Congressional Joint Committee on the National Budget which would have been, in effect, a committee on planning.

Analyses of major policy issues (Recommendation 16) -- Most such issues are likely to involve long-term considerations. A long-range perspective regarding such problems (e.g., increasing the supply of energy) is essential for the formulation of short-run and medium-term indicative plans for, in such cases, the course of events a quarter of a century or more ahead will be determined by what is being done today. Such long-range issues must be considered, however, in relation both to others of similarly distant time horizons and to policies and programs envisioned for the short- and medium-terms involving other matters. For the latter policies and programs will both affect and be affected by actions taken for the long term.

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*For obvious reasons, such intimidation rarely comes to be publicly known. For an example, directed at the Bureau of Labor Statistics, and successful from industry's standpoint, see U.S. Congress, Senate, Committee on Education and Labor, Violations of Free Speech and Rights of Labor, Hearings before a subcommittee of the Committee on Education and Labor on S. Res. 266 (74th Congress) 76th Congress, 1st session, Part 45, Supplementary Exhibits, pp. 16801ff.

**See colloquy on this point between Mr. James Boyd, President Materials Associates, and myself in Commission Document, Public Hearings on Problems of Supplies and Shortages.

Presidential response (Recommendation 17) -- The requirement that the President respond in detail to the options placed before him by the NPC, together with the Congressional procedures recommended, are the crucial action-forcing devices to assure that indicative planning would be more than an expression of good intentions.

The requirement would also assure Presidential and Congressional demand for high quality analysis upon the importance of which the main report properly places heavy emphasis.

Executive Office staff (Recommendation 19) -- Given the work of the NPC and the availability of assistance from the proposed Statistics Center, Presidential staff requirements for indicative planning should be small. As noted, it seems likely that the need could be met wholly or largely by reassignment of personnel already in the Executive Office of the President.

Consistency between budget and plan (Recommendation 20) -- Consistency between the two would be essential because the budget, as noted, would become the main instrument for the implementation of indicative plans.

Tying budgets and plans together would subject the Presidential planning process to the same discipline that applies to preparation of the annual budgets.

Joint Economic Committee (Recommendation 21) -- Since the Joint Economic Committee now receives the President's Economic Report, in which it is proposed to include the President's plan option, and since that Committee has acquired considerable economic expertise, it seems the appropriate Committee to assume the leading role in the Congressional part of the indicative planning process.

The likelihood of legislation conforming to the plan adopted by Congress would be significantly enhanced if the Committee responsible for indicative planning included the chairmen and the ranking minority members of each of the authorizing committees having responsibility for legislation with major economic impact. The Full Employment Bill of 1945 provided for inclusion of such persons on a proposed Joint Committee on the Budget which was to report on a National Production and Employment Budget. That budget would have been, in effect, an indicative plan.

If and when Congress adopts legislation providing for indicative planning, it is suggested that consideration be given to including the appropriate committee chairmen and ranking minority members on the Joint Economic Committee. In order to avoid that Committee becoming too large, provision might be made to appoint the chairmen and ranking minority members to vacancies as they occur. Such a procedure would preserve continuity on the JEC thus assuring continued availability, during the transition, of the expertise that present members have developed.

Congressional Planning and Budget Office (Recommendation 23) -- Congress would need expert staff to help it find its way through the intricacies of indicative planning. Since it is proposed to use the budget as the main implementing instrument of indicative planning, it seems advisable to place the planning and budgeting professional and technical functions in separate divisions of the same Office under a single chairman to coordinate the work of the divisions. This would avoid proliferation of Congressional agencies and should make it possible to transfer some of the members of the present Congressional Budget Office to the new Planning Division. Some members of the CBO staff now perform work that appropriately should be done in such a division.

First Concurrent Resolution on Plan (Recommendation 24) -- As previously indicated, the numerical goals proposed to be embodied in concurrent resolutions are essential in order to reflect the plan in the budget, which would be the main implementing instrument for the plan. Numerical goals would also be required to conform certain types of legislation to the plan. For example, legislation to stimulate home construction should be consistent with the numbers of dwelling units set as a goal in the indicative plan.

As is emphasized below, the numerical goals specified in the NPC's early years should be relatively few. More could be added later as the NPC and the Statistics Center acquire the data, the experience and the capacity to proceed with reasonable confidence to greater specificity.

Coordinating legislation and the budget with plans (Recommendations 25 through 28) -- The procedures outlined in these recommendations largely track, and are integrated with, the present Congressional budget process. They are intended to make the plan effective, to the maximum degree practicable, as the framework for all pertinent legislation including the budget.

Congressional action on plan adjustments (Recommendation 30) -- During each two-year plan period, Congress would need to act to eliminate (if it wished to do so) inconsistencies resulting from its legislation of the preceding year and also to deal with events unforeseen during the previous session of Congress or with any obstacles to the attainment of the numerical goals specified during that session that may not have been given adequate consideration.

The primary purpose would be to achieve the numerical goals that Congress had set the preceding year. However, unforeseen events might have made one or more of those goals unrealizable. The plan then would have to be adjusted to take reality into account.

No provision is made for the adjustment to be reflected in the first concurrent resolution on the budget because there might not, by then, have been sufficient time for development and evaluation of the adjustment options.

Federal Reserve Board (Recommendation 32) -- It is not intended that there be any interference with the day-to-day operations of the Federal Reserve Board. The sole purpose is to assure that the non-elected members of the Board, an institution that was created by Congress, act in harmony with the goals set by the elected representatives of the people. Allocation of credit, which probably would be required rarely, would supplement the budget as a means for implementing the plans. The French government apparently uses its control of credit facilities for that purpose. The FRB itself has used a variety of devices (e.g., consumer credit controls and differentiated interest rate ceilings*) that have an effect similar to allocation of credit.

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*The FRB sets interest rate ceilings under Regulation Q. In setting ceilings for banks, the FRB consults with the Federal Home Loan Bank Board which has jurisdiction over Federally-chartered savings and loan associations. The lower ceilings on interest rates paid on saving accounts by banks relative to those paid by the S&Ls are designed, by attracting savings to the latter, to channel credit toward housing mortgages.

VIII. PLANNING FOR FULL EMPLOYMENT

The recommendations previously listed would require that every plan proposed by members of the Planning Commission, the President and the Congressional Joint Economic Committee either provide for full employment or include a statement of the reasons for the short-fall from full employment and what would be required by way of provision for public service employment and other programs to take up the slack.*

Planning, of course, could aim at more modest goals than full employment. In view, however, of the enormous costs of unemployment in terms of human hardship, social problems and economic waste, it would be indefensible to plan deliberately for less than full employment.

The Costs of Unemployment

A careful and thoroughly documented study conducted under contract with the Congressional Research Service and recently published by the Joint Economic Committee throws light on the magnitude of some, but by no means all, of the personal tragedies and social costs associated with unemployment. Summarizing the results with respect to unemployment, the report on the study says:1/

> The findings on the relationship of unemployment, as an index of "cyclic" changes in the economy to the various pathological indices, were translated into ten-

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*/ While the recommendations concerning full employment go further than the Humphrey-Hawkins bill, they are not much different in effect from certain provisions of H.R. 10373, introduced October 28, 1975, by Congressman Richard Bolling of Missouri, one of the most respected members of the House. That bill, which provided for a "Balanced Economic Growth Plan," declared "that all Americans able and willing to work have the right to useful paid employment at fair rates of compensation," and that "It is the responsibility of the Federal Government to guarantee this right by developing and administering such policies and programs as may be needed to attain and maintain genuine full employment." The bill provided that, "Such other goals as price stability and a favorable balance of payments should be pursued without qualifying, limiting, compromising, or undermining the rights and guarantees established by this Act." The President would have been required to transmit to Congress a proposed plan that, among other things, would "establish economic objectives paying paramount attention to the attainment of the goal of full employment and giving particular consideration..." to certain other goals. [Emphasis added]

> tative numerical estimates. Thus a one percent increase in the unemployment rate sustained over a period of six years has been associated (during the past three decades) with increases of approximately:
>
> -- 36,887 total deaths, including 20,240 cardiovascular deaths,
> -- 920 suicides,
> -- 648 homicides,
> -- 495 deaths from cirrhosis of the liver,
> -- 4,227 state mental hospital admissions, and
> -- 3,340 state prison admissions.
>
> All of the above are based on the population in 1970. These estimates include lagged associations of increases in pathology with changes in unemployment rates distributed over a five-year period following those changes.

The trauma inflicted by unemployment on the individuals affected and the members of their families is not measurable in dollar terms. However, Senator Humphrey, in a letter transmitting the report to the members of the Joint Economic Committee, did present estimates of the cumulative monetary costs through 1975 of the 1.4 percent increase in unemployment that actually occurred during 1970. He wrote:[2/]

> The 1.4 percent rise in unemployment during 1970 has cost our society nearly $7 billion in lost income due to illness, mortality, and in added State prison and mental hospital outlays. To this must be added public

> outlays of some $2.8 billion annually over the 1970-1975 period for jobless and welfare payments associated with the sustained 1.4 percent rise in unemployment. Additional outlays not included here are the costs of care in Federal institutions. Even excluding these latter outlays, the cost of the sustained 1.4 percent rise in unemployment during 1970 is at least $21 billion. And as noted earlier, this entirely excludes the impact of the future increases in unemployment since 1970 as well.

The $21 billion figure is by no means the total cost. As Senator Humphrey noted elsewhere in the same letter:[3/]

> These figures reflect the cumulative impact over just a five-year lag period. As a result, they understate the eventual total long-term impact of a one-percent rise in unemployment. This understatement is particularly significant for cardiovascular-renal (CVR) and cirrhosis diseases which typically require many years to be even diagnosed. Additionally, these figures understate the impact of unemployment, for they only include liver or CVR disease deaths--they do not include persons treated for these diseases when it did not result in death.*

In addition, it should be emphasized, the study covered only the pathological indices listed above although it is not unreasonable to suppose that other illnesses, including some that are fatal, and forms of antisocial behavior not resulting in imprisonment or homicide, are associated with unemployment.

Putting aside human suffering, the economic waste resulting from unemployment is staggering. Measured in third quarter 1976 dollars, the gap between actual and "potential" GNP (the latter based upon a 4 percent unemployment rate) was over a quarter of a trillion dollars, at an annual rate, in the first quarter of 1975 and, despite "recovery" since then, over a fifth of a trillion in the third quarter of 1976.[4/] If the gap were to be measured on the basis of standards of full employment prevalent in other industrialized democracies*, it would be far larger, and, if measured against the GNP that would be available if there were full employment in the sense of Sir William Beveridge's classic definition of the phrase, the gap would be still greater. In his "Full Employment in a Free Society," Sir William wrote that full employment:[5/]

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* This statement was made in the context of the effects of a one percent increase in unemployment, which the study uses as a standard measure. The point also applies, of course, to the 1.4 percent rise in unemployment that actually occurred in 1970.

> ...means having always more vacant jobs than unemployed men, not slightly fewer jobs. It means that the jobs are at fair wages, of such a kind, and so located that the unemployed men can reasonably be expected to take them; it means, by consequence, that the normal lag between losing one job and finding another will be very short.**

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* The Bureau of Labor Statistics publishes unemployment rates for other countries adjusted to make them comparable to the U.S. figures. For the period 1959 through 1972, the weighted average adjusted rate for the other countries then covered (excluding Canada whose unemployment rates are largely made in the United States) was 2.0 percent while the U.S. average rate was 4.8 percent. Both figures include periods of recession, which means that the 2 percent figure is higher than what the countries involved would consider full employment. The data can be found in the Handbook of Labor Statistics issued annually by the Bureau.

** The National Council of Churches appears to define full employment in much the same terms as Sir William. In a recent statement (which, incidentally, called for "short-range and long-range national economic planning") the NCC said:

> The current debate has, in many ways, clouded the meaning of full employment. No longer does the term full employment focus on human beings. No longer does it mean that all job-seekers will find work. Instead it focuses on price changes. Defining full employment as some level of unemployment is unacceptable, contradictory and confusing. We believe that 3% unemployment rate, which is the goal of the Humphrey-Hawkins bill should only be an interim objective while moving the economy to a position whereby no person able and willing to work should be denied employment. Full Employment must be redefined, in human terms.

(The full text of the NCC statement was reprinted in the October 1976 issue of Focus on Full Employment, a publication of the National Committee for Full Employment.)

Full Employment and Price Stability

Unfortunately, "trade-off" thinking based on the Phillips curve has -- at least until recently -- so captured the minds of economists and, through them, of the public that mention of full employment evokes "inflation" almost as an echo. Some economists have long recognized that the notion of an unavoidable trade-off between price stability and full employment is open to question. They saw that, at most, all the Phillips curve could show was what had happened in the past under the policies of the past and that different policies could yield different results. Others have been persuaded to reexamine the issue on the basis of recent experience, which has seen practically all industrialized democracies (except for Sweden and Norway, which rely heavily on indicative planning, and have kept unemployment at low levels) beset simultaneously by serious inflation and sharply rising unemployment.*

There is not space here to marshal all the evidence against the trade-off notion but it may be useful to cite two recent studies of the subject, both published by the Joint Economic Committee.

Professor Richard Ruggles of Yale University took the trouble to examine actual wage and price behavior in recessions and recoveries, and concluded:[6/]

> The thesis that recessions are necessary to avoid inflationary spirals is not borne out by the record of actual wage and price behavior. There is no evidence that recovery or economic growth has led to inflationary price increases; on the contrary, the low rate of productivity increases in recession has resulted in cost-push price increases, and the higher rate of productivity increases in recovery has resulted in

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* Statistical manipulation, designed to show that the coexistence of inflation and high unemployment results from a "shifting" of the Phillips curve, is the last desperate resort of those who cling to the trade-off concept in defiance of the facts. Their calculations become rationalizations for needless toleration of ever-higher unemployment rates.

> substantial price stability. The rapid price increase due to scare-buying in the first few months of the Korean War quickly subsided as the economy expanded. In the recessions of the late 1950s, the secular rise of wages was not fully offset by increasing productivity, and there were moderate price increases. The period of the greatest price stability was the early 1960s; this was also the most extended period of economic recovery. The price increases of the Vietnam War period, triggered by war-inspired increases in agricultural prices in 1965 and 1966 accelerated in the recession of 1970 and 1971. The more recent price rises had their origin in rising world agricultural prices, the devaluation of the dollar, and the quantum jump in oil prices. The largest increases in prices that have occurred since World War II took place during the recession of 1974-75, and it is only with recovery that inflation appears to be subsiding. In light of past experience, there is strong reason to believe that a high rate of growth and its concomitant high rate of productivity increase may be a necessary condition for long run price stability. [Italics in original]

After documenting and elaborating that conclusion, Professor Ruggles wrote:[7/]

> The existence of a trade-off between unemployment and wage changes is not supported by the data, and to the extent that economic growth results in productivity increases which dampen the increase in wage cost it may well be that growth is the only way to control the wage-price spiral. There undoubtedly is a wage-price spiral,* since wages respond to increases in consumer prices. But if, as in recent experience, the government attempts to achieve price stability through restrictive measures the major effect will be to reduce real output and employment with little effect upon the price inflation.

Professor Howard M. Wachtel and Peter D. Adelsheim found that perverse price flexibility in concentrated industries, which increase price markups over direct costs during recessions to maintain profits, are a major factor causing prices to rise (within limits, of course) despite rising unemployment. As they put it:[8/]

> . . . instead of reducing inflation, unemployment can increase the rate of inflation under conditions of economic concentration. The traditional Keynesian antidote of unemployment to cure inflation may in fact be the toxin which spreads and multiplies the disease.

In a letter transmitting their study to Senator Hubert Humphrey, in his capacity as Chairman of the Joint Economic Committee, John R. Stark, the Committee's Executive Director, succinctly sums up the Wachtel-Adelsheim findings:[9/]

> Messrs. Wachtel and Adelsheim expound a markup theory of pricing by firms and develop new evidence to show that recessions can spur rather than dampen price increases, thereby explaining the coexistence of rising unemployment and rising inflation rates in recent years. Examining the cyclical behavior of price markups over the business cycle, the authors conclude that many firms--particularly in concentrated industries--succeed in raising the margins between prices and direct costs in an effort to maintain profits, even though their sales and output levels are declining. They conclude furthermore, in view of the inverse relationship between margins and output in these industries, that Keynesian-type policies of macroeconomic restraint cannot be fully effective in combating inflation. Consequently, they argue, such policies must be supplemented by direct efforts to curb price pressures in those sectors which do not behave competitively.

The above findings, of course, are perfectly consistent with Professor Ruggles' conclusions.*

As this report was being written, two incidents occurred which seem to provide striking illustrations of the Wachtel-Adelsheim thesis. The first involved the steel industry, which raised prices on sheet steel. The Acting Director of the Council on Wage and Price Stability issued a preliminary report on the increases which he summarized, in part, as follows:[10/]

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* Other factors, of course, can also cause prices to rise during recessions; e.g., the Soviet grain deal during the Nixon Administration and the actions of OPEC.

> Demand for steel products shows an erosion since late spring of 1976, and this erosion is reflected in steelworker layoffs and selected furnance shutdowns. The most recent figures available indicate that capacity utilization in the steel industry is currently below 70 percent. Future demand for steel products is quite uncertain at present in view of the leveling off of automobile and appliance sales and weak construction and capital goods demand.

The report found no indication of "any significant deterioration of the [industry's] price-cost relationship."[11/] The second incident involved Dupont, which announced increases in prices for polyester fibers just two weeks after its chairman had stated that he expected the firm's profits to be reduced because of "continuing weakness in the man-made fibers business." [12/]

If the scholars cited above and others who have reached similar conclusions are correct, planning for full employment would help to abate rather than intensify inflationary pressures while, at the same time, avoiding or at least diminishing the human and social impacts of unemployment and its enormous costs in potential wealth foregone.

Planning for full employment could be a powerful anti-inflationary weapon in other ways as well. The Commission's main report refers repeatedly (although it does not stress it enough) to the inflationary effects of "stop-go" economic policies, alternating between monetary and fiscal restrictions on demand, that cause recessions, and stimulus, that causes increased demands to run up against supply bottlenecks. The bottlenecks, as the main report shows, are the results of underinvestment during the recessions, related to uncertainties about future demand and future government policies.

With stable full employment as the paramount* goal of indicative planning -- and assuming that such planning proved reasonably successful -- both uncertainties, at the very least, would be less serious. Recessions would be reduced in frequency, depth,and duration, if not completely avoided. The plans would give industry advance notice both of future government policies and programs and, through planning forecasts, of anticipated levels of demand by region, and by sector and key industry. Industry would thus be able to make and carry out its investment plans with much greater confidence than it can at present.

The searching and sophisticated analyses of economic interrelationships necessary for the Government to formulate its policies under indicative planning would help to uncover in advance potential supply bottlenecks and other factors that might have inflationary consequences. Timely preparations could then be made to offset those factors. In the case of anticipated bottlenecks, for example, the planning process would reveal to the industries involved that they would be wise to expand their capacity and could safely do so. If and when necessary, the problem having been revealed, the indicative plans could make provision for programs under which Government would encourage or stimulate needed capacity expansion.

In broader terms, indicative planning would enable the Government to become generally more effective in combating inflation. Presently, the Government relies almost exclusively on the blunt instruments of gross monetary and fiscal policy to halt inflation. There is increasing awareness that those tools are not only ineffective, unless pushed to intolerable extremes, but also destructive. Use of monetary and fiscal policy to restrict demand (as if excess demand were the cause of inflation when industry is actually operating far below capacity) inflicts unemployment disproportionately on the already most underprivileged and vulnerable members of the society. It not only wastes resources in idleness but reallocates perversely those that remain in use -- at the expense of what are or ought to be national priorities such as housing and the services and facilities provided by State and local governments. At the same time, restrictive monetary policies actually add to inflationary pressures through increases in interest rates that raise costs throughout the economy.

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* "Paramount," as noted, is the word used in Congressman Bolling's bill.

The framework provided by an indicative plan would make possible the intelligent use of selective anti-inflationary measures, aimed with precision at specific sources of inflation, actual or potential, instead of the blunderbuss of aggregate monetary and fiscal restrictions. If forecasts indicated the probability of an excessive capital goods boom that threatened to set off a surge of inflation, for example, a temporary negative investment tax credit might be indicated. The data and models used in developing the indicative plan would make it possible to trace the likely effects of such a negative tax credit through the economy's network of interrelationships before decision makers took action.

Such "fine tuning" of the economy never will be perfect. It would be necessary to proceed with caution and restraint, particularly in the early years of indicative planning. Later, as data, understanding and experience accumulate, it should become possible to act with greater confidence. Mistakes undoubtedly would be made. It is hard to visualize, however, how errors in applying narrowly focused selective measures could be more devastating in their effects than the aggregative restrictions that brought on and prolonged the recession from which the nation now, somewhat falteringly, may be emerging. Corporations make mistakes in their planning, too, but they nevertheless continue to plan, learning from their mistakes as they go along. Unforeseeable events, such as the drastic increases in petroleum prices imposed by OPEC or the Soviet grain deal, could compel adjustments in indicative plans. In the case of the grain sales, the very existence of an indicative plan might have made it easier to foresee the consequences and thus to avoid the mistake.

The essential point is that price stability and indicative planning for full employment are not only compatible but mutually supporting and facilitating. Stable full employment would abate or eliminate certain types of inflationary pressures. The existence of an indicative plan would help to reduce uncertainties affecting investment plans, thus at least moderating certain other causes of inflation. Indicative planning would make it easier to apply selective anti-inflationary measures thus avoiding the use of aggregative monetary and fiscal restrictions that cause unemployment and, by constraining investment, contribute to future inflation. With less reason to fear inflation, because it could be more easily prevented or moderated, the inhibitions that now block measures aimed at full employment would be eroded or eliminated.

IX. LIMITATIONS AND THE NEED TO PROCEED SLOWLY

Planning and the forecasting associated with it probably always will be far less than perfect. That is true even for short run planning and forecasts. Recognition of the imperfections of the processes is the basis for the recommendations that new six-year plans be made every two years and that adjustments of the two-year plans be made in the middle of each two-year plan period.

The difficulties of planning, which would remain a continuing problem into the indefinite future, would be much greater in the first years, possibly the first decade or more, after planning is initiated than they should be later, if matters go well.

As the first attempts at planning were begun, it would become clear that existing data were far from adequate for the purpose. The Advisory Committee to this Commission has noted that "It will take time for the [Statistics] Center to reach its full potential. Its staff and analytic tools will be most valuable if they are developed ~~closely~~ slowly and carefully, and if they are continually refined." The proposed National Planning Commission would find itself severely constrained, in its early years, by the lack of data available from the Center. Similarly, it would take the Center considerable time to develop and refine modelling and other analytical capacities to the point where they could even begin to be useful for planning. Given the complexities of human affairs, results derived through those techniques will always be subject to error and it would take experience to determine the degree of confidence with which they could be used.

For these reasons, it would be unwise for the NPC to plunge prematurely into the preparation of planning options. Perhaps two years or more should be allowed to go by after creation of the NPC and the Center before the former is required to take the first tentative steps toward planning. Even then, its options

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should be confined to broad objectives, e.g., overall levels of employment production, investment, consumption and total state and local government outlays plus estimates, in terms of broad categories, of the budget magnitudes required to support the respective objectives of the alternative plans. Carefully qualified projections could be made of the sectoral implications of the options (e.g., the impact on mining, manufacturing, construction, transportation, etc.) and possibly of major regional implications. Such projections, however, should serve as little more than tests as to how much further the NPC should try to proceed in the next planning cycle.

The pace should be set, not in terms of a rigid, predetermined schedule, but rather on the basis of what accretions of data, competence and experience indicate could be done reasonably well at the time. Above all, the NPC would have to be constantly on guard against the temptation to try to do too much too soon. That way lies the danger of destroying its credibility and with it, quite likely, all possibility of another serious attempt at indicative planning for many years thereafter.

That does not mean that the NPC could make no useful contribution during its early years beyond the specification of numbers many of which already appear in the budget. It would be generating alternative sets of such numbers, putting them up for public debate (along with some admittedly rough projections of their consequences) and thus better equipping the public to influence to some degree the ultimate budget and broad allocations within it.

It could and should also take on, in its early years, the task of analyzing major policy issues envisioned by the Commission's Advisory Committee for its proposed National Growth and Development Commission. Performance of that task, also, would suffer from limitations already noted, but as long as these are fully recognized, the results could be quite useful. By engendering public discussion of such issues, based upon alternative options for dealing with them, the NPC might be able to impel the President and the Congress to act before rather than after the problems involved grow to crisis proportions.

One further point must be re-emphasized. It is not contemplated, even after the NPC becomes firmly established, that its plan options (or the plans adopted by Congress) would prescribe what is to be done in the private sector. The options would suggest to the President, the Congress, and the public in a coherent way what groups of NPC Commissioners believe should be done by the Federal Government. The suggestions could include, as legislation now explicitly or implicitly includes, such goals as the numbers of housing units to be built or rehabilitated with various forms of Federal assistance, the miles of railroad roadbed to be improved with the aid of Federal funds, the numbers of students to be assisted through college with Federal loan guarantees, etc. What the NPC would add with regard to such numbers, as compared to present arbitary Congressional methods of setting them, is coherence. The separate numbers would have to be consistent with all the others and the whole would have to fit within the limits of the resources available to reach the goals that the numbers represented within the time frames proposed. In addition, the goals set for any two-year period would have to be consistent with those established under the six-year, medium-term plans and with other goals that require a long range perspective.

Insofar as the private sector is concerned, the plan options (and, after adoption by Congress, the plans) would merely describe what would be expected to happen in the major sectors of the economy and in key industries as a result of planned Federal Government actions. Additionally, there would also be descriptions of the expected regional consequences of the plans.

X. A QUESTION OF TIMING

A diligent effort was made to obtain informed and uninhibited criticism of the recommendations presented in this separate report. In their present form, the recommendations reflect a number of valuable suggestions that were made by individuals who agree that a start toward indicative planning is needed without delay. For the rest, reactions basically took two forms. As might have been expected, those who are ideologically opposed to indicative planning refused to discuss the recommendations. Others, more open-minded about indicative planning and some actually supportive of it, thought it was premature to propose now that our Government embark on such planning. Several among the latter group said, in so many words or by implication, "We must crawl before we can walk."

The recommendations here presented are called for, in any case, because, as noted, leading sponsors of the legislation creating the Commission sought and expected to get from it recommendations for a "process and structure" for indicative planning. Nevertheless, the question of timing is relevant and deserves consideration.

The "crawl before we walk" argument seems to rest in major part on an underestimation of the state of the art. It is true that we in the United States presently have far less understanding of interrelationships among the components of the economy than would be needed for indicative planning. But that is attributable mainly to the fact that we have made no serious and systematic effort to acquire such understanding. The effort, as previously indicated, is unlikely ever to achieve perfect results. But we could learn a great deal more than we presently know, as the main report of this Commission suggests. The Statistics Center proposed by the Commission's Advisory Committee could make a major contribution toward equipping us with the knowledge we would need for reasonably sound indicative planning.

Other countries have not been deterred from embarking on indicative planning by lack of understanding of economic interrelationships. Once committed to planning, they have made and continue to make determined efforts to acquire the information they need for the purpose.

We have at least equally competent -- quite possibly significantly superior -- technical resources that could be turned to that purpose.

The success record of indicative planning in other countries admittedly is not uniformly good. But there have been significant successes. It is noteworthy that none of the major industrialized democracies that have initiated indicative planning have abandoned it, except for the United Kingdom which is now considering resuming it. That suggests that the process must have proved of some value even where it has been less successful than elsewhere. Noteworthy, also, is the fact that planning agencies in democratic countries have not fallen into bureaucratic ruts, endlessly repeating established routines regardless of whether or not they work. On the contrary, there seems to be almost constant experimentation with new approaches and new methods, not because existing methods have been complete failures but because of an urge to do better.

Because of the experience already gained in other countries, we in the United States will be in a fortunate position when we initiate our own indicative planning. We will not have to reinvent the wheel. We will be able to build on the successes and avoid the mistakes of the countries that already are engaged in indicative planning.

In short, although we would have to adapt experience elsewhere to the unique characteristics of our own institutions and economy, much of the "crawling" has already been done for us. We should be able to walk much more quickly than those countries that pioneered indicative planning.

In any case, what kind of "crawling" now would help us to move to indicative planning later? How does a Nation prepare itself to engage in indicative planning? This seems to be a case in which the only way to begin is to begin.

Attempts to improve policy making processes in government, as the main report proposes to do, are worthwhile in themselves. But such improvements are not planning, nor substitutes for planning, nor even steps in preparation for planning. The recommendations of the Commission's Advisory Committee for creation of a National Growth and Development Commission are also useful. It is long past time for our Government to attempt to foresee the implications of problems and opportunities now barely visible above the horizon.

Attempts at long range foresight are an essential element of planning but, also, not a substitute for it. Despite the Advisory Committee's stress on "comprehensive analysis" and the need for "integrated policymaking," some of the direct and most of the remote, though possibly important, implications of issues considered by its proposed NGDC would be almost sure to go unperceived in the absence of the framework that an indicative plan would provide.* Moreover, if the undertaking should come to be identified as "planning," the mistakes and failures that would occur because of the inherent limitations could tend to discredit and thus set back rather than advance the progress of the Nation toward indicative planning. The possibility must be admitted, however, that imperfections in the problem-by-problem approach proposed for the National Growth and Development Commission could also highlight the need for more comprehensive indicative planning.

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*Ability to understand implications of proposed policies would be enhanced if the Statistics Center ~~[illegible] policies~~ recommended by the Advisory Committee were to be established. But, absent an indicative plan, analyses produced by that Center for the NGDC would have to be based upon static assumptions. Each medium-and long-range issue would have to be examined on the premise that all other things would remain unchanged, i.e., implications would be analyzed on the assumption that government policies and programs applicable to all other matters would continue as they were at the time. There would be no coherent set of goals in relation to which to view the implications of a particular policy proposal nor would there be advance knowledge of the new policies and programs intended to be initiated by the government, with respect to other matters, in the years ahead that might substantially alter the framework for consideration of the particular policy proposal under study. Thus, problems of conflicting goals, policies and programs, which indicative planning would be directed toward resolving, would continue to plague decision making in the Executive Office and in Congress.

But why wait? The need for indicative planning is apparent now. It is not only present but urgent. Gearing up indicative planning institutions and processes to operate with reasonable effectiveness will take time whenever they are initiated, whether now or ten years from now, whether before or after an NGDC documents further the inadequacies of a piecemeal approach. Delay can only add to the accumulation of problems that indicative planning ultimately will have to tackle, making the start-up process all the more difficult.

It may well be that Congress is not yet ready, despite its creation of this Commission, to enact the legislation needed to equip the nation for planning which, as Senator Mansfield said, "...is one of the most ambitious undertakings in which a society -- any society -- can engage." The numerous planning bills submitted during the past two years, however, provide some basis for hope that Congress may be more prepared to act than many now believe. Even if that hope should prove unduly optimistic, it is certainly not too early to begin immediately to think about the shape that indicative planning should take in our country -- to think, particularly, about how to make it both democratic and reasonably effective.

This separate report is submitted not as the ultimate blueprint, but rather as a contribution toward the thinking, the public debate and discussion, that ~~is~~ are essential to assure that when indicative planning becomes reality -- as it almost certainly will -- it will take a form that will serve the Nation well.

A story told about French Marshal Lyautey is very much in point. His gardener sought to put off the Marshal by reminding him that a tree he wanted planted would not flower for a hundred years. "In that case," said the Marshal, "plant it this afternoon." We must begin now to consider how best to plant the seeds of sound and democratic indicative planning for the United States.

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REFERENCES

I. Introduction

1/ See the Economic Cooperation Act of 1948, §115, Pub. L. 80-472 (April 3, 1948).

2/ See Pub. L. 87-195, §106 (August 1, 1962)

3/ See Graham, Toward a Planned Society: From Roosevelt to Nixon 162-163 (1976); the Resource Conservation and Recovery Act, §§ 4001-4008, Publ. L. 94-580 (October 21, 1976)

4/ See the Clean Air Act, §113, Pub. L. 88-206 (October 20, 1963); and the Federal Water Pollution Control Act §10, Pub. L. 84-660 (July 9, 1956).

II. Legislative History

1/ Congressional Record S. 10395 (June 12, 1974)

2/ S. Rept. No. 93-904, 93d Cong. 2d Sess. p. 6 (June 5, 1974)

3/ Congressional Record S. 15385 (August 20, 1974)

4/ Congressional Record S. 15386 (August 20, 1974)

5/ Congressional Record S 16861-16862 (September 17, 1974)

6/ Congressional Record S. 10442 (June 12, 1974)

III. Comments on Main Report

1/ Pub. L. 91-631, 84 Stat. 1876 (December 31, 1970), 30 U.S.C. § 21a

2/ See Department of the Interior, Mining and Minerals Policy: Annual Reports (1972, 1973, 1975, 1976); also General Accounting Office, Report to Congress: Need to Develop a National Non-Fuel Mineral Policy 6, 11 (July 1, 1976): "the Department of the Interior has not structured long-range goals and objectives for expected achievements or developed quantifiable standards" for the policy of the Act; and the Department still lacks "comprehensive information on Federal programs with objectives that conflict" with the objectives of the Act.

3/ Pub. L. 91-609, 84 Stat. 1791 (December 31, 1970), 42 U.S.C. §§ 4501-4503.

4/ See the President's Reports on National Growth and Development (1972, 1974, 1976). One of the few identifiable conclusions under the heading "Hard Choices in Natural Resources" in the 1976 Report (pp. 70-83) is: "In the long-term, non-energy mineral policy is perhaps impossible to define." See also Graham, Toward a Planned Society: From Roosevelt to Nixon 226-227 (1976); and Franklin et al. A Critique of the President's 1976 Report on National Growth and Development 13 (1976): the report "does not contain recommended

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national goals, policy or programs"; "lacks a theoretical framework needed to interpret the meaning of the analytical information"; and "fails to clearly articulate its assumptions and define its terms."

5/ Pub. L. 91-190, 83 Stat. 852 (January 1, 1970), 42 U.S.C. §§ 4341 et seq.

6/ See Council on Environmental Quality, Environmental Quality-Annual Reports (1970-1975)

VII. Explanations of Recommendations

1/ Congressional Record S10445 (June 12, 1974)

2/ General Accounting Office, Report to the Congress: Impact of Shortages of Processed Materials on Programs of Vital National Interest, p. 18 (February 27, 1976)

VIII. Planning for Full Employment

1/ U.S. Congress, Joint Economic Committee, Achieving the Goals of the Employment Act of 1946 -- Thirtieth Anniversary Review, Volume 1 - Employment, Paper No. 5, "Estimating the Social Costs of National Economic Policy: Implications for Mental and Physical Health and Criminal Aggression," (October 26, 1976) p. 5f.

2/ Ibid., p. ix

3/ Ibid., p. iv

4/ U.S. Department of Commerce, Bureau of Economic Analysis, Business Conditions Digest, October 1976. The data are given in constant 1972 dollars on page 95 and have been adjusted to third quarter 1976 dollars by the implicit price deflator on page 69

5/ William H. Beveridge, Full Employment in a Free Society (New York: W.W. Norton and Company, 1945) p. 18

6/ U.S. Congress, Joint Economic Committee, U.S. Economic Growth from 1976 to 1986: Prospects, Problems, and Patterns, Volume 2 - "The Factors and Processes Shaping Long-Run Economic Growth," (November 10, 1976), p. 2

7/ Ibid., p. 21

8/ U.S. Congress, Joint Economic Committee, Achieving the Goals of the Employment Act of 1946 -- Thirtieth Anniversary Review, Volume 3 - Inflation and Market Structure, Paper No. 1, "The Inflationary Impact of Unemployment: Price Mark-ups During Postwar Recession, 1947-70," p. 4

9/ Ibid,, p. iv.

10/ U.S. Government, Executive Office of the President, Council on Wage and Price Stability, memorandum from William Lilley III, Acting Director, addressed "To the Members and Adviser Members of the Council on Wage and Price Stability," and attached to press release dated December 2, 1976

11/ Ibid., "Preliminary Staff Report on December 1 Steel Price Increase," attached to Mr. Lilley's memorandum, p. 10

12/ New York Times, December 1, 1976

[Whereupon, at 4:15 p.m., the task force adjourned to Friday, September 17, 1982]

CONGRESSIONAL BUDGET PROCESS

FRIDAY, SEPTEMBER 17, 1982

House of Representatives,
Task Force on the Budget Process,
Committee on Rules,
Washington, D.C.

The task force met, pursuant to notice, at 10:15 a.m. in room H-313, U.S. Capitol, Hon. Anthony C. Beilenson presiding.

Present: Representatives Beilenson, Frost, Bonior, and Rhodes.

Mr. Beilenson. We will get started.

A couple of other members will be along soon, but we are not sure exactly when. We have the problem, as you are all well aware, that the session today was called off so that some of the members did in fact leave town.

Today the Task Force on the Budget Process is holding the second of a series of hearings on the congressional budget process. We are grateful to those of our colleagues who have been able to take time from their busy schedules to appear before us to share their views on this topic.

Our task force has spent the last few months looking carefully at budget process problems and discussing informally the merits and drawbacks of various proposals to change the way Congress develops budgetary, spending, and revenue legislation. However, we have not yet reached any conclusions about what changes, if any, should be made.

At our first hearing, on Wednesday, most of the members who testified expressed strong support for the existing budget process and had some constructive ideas about how we might improve it. Those suggestions, along with ones we receive today and at our subsequent hearings later this month, will be very useful to us as we proceed with developing recommendations to present to the full Rules Committee.

Again our thanks to our two witnesses today, and the two or three others who will be here later.

We will hear first from the gentleman from Wisconsin, Mr. Dave Obey.

STATEMENT OF HON. DAVID OBEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WISCONSIN

Mr. Obey. Thank you, Mr. Chairman.

Mr. Beilenson. You are very welcome, sir.

Mr. Obey. I guess I would like to say, and I don't have a prepared statement, I would just like to refer to a few notes and add whatever comes into my head along the way.

Mr. BEILENSON. I hope that has something to do with that terrific budget bill plan of yours.

Mr. OBEY. Yes, it does. I got on the elevator this morning and ran into a person a lot of us remember, Al Cederberg, who as you know used to be a very influential fellow around this place, and as I came up the elevator he wished me well and said, "I hope that what you are pushing can happen because," he said, "as an outsider looking in these days, what has happened to the process in the House in the last couple of years is a disgrace."

Mr. Chairman, I think people make a mistake around here when they talk about the question of whether or not the budget process as it exists today is a success or a failure. That is an unfair question. What we have to recognize is that the budget process, when it was first imposed just a few years ago, was viewed by almost all of the major participants in creating that process as a transitional process.

It was generally recognized by the more clearheaded students of this institution that you couldn't get where you needed to go immediately, and that you had to have some transition mechanism to get there.

Under the old system, we had no controls whatsoever. The Appropriations Committee would produce its 13 appropriation bills, Ways and Means would produce its tax bills, other actions would be taken on entitlements, and at the end of the year Congress would discover what its fiscal policy was. It had no idea until then. We did it all ad hoc.

The process we have today is designed to give us some kind of fiscal and intellectual framework within which to proceed in the process of making our microeconomic decisions. But the problem is that the budget process we have today is really not a process at all. It is simply a promise of future action, and I think the weaknesses in the process are really going to wind up killing what is left of rational, orderly process in the House, unless we make some radical changes.

The problems that we face with it are many, but none summarizes it more dramatically than does the absurd process by which the latest continuing resolution was put together. Members of the Appropriation Committee, in the process of putting it together last night, had almost no idea what was in it, no idea of the arrangements that had been made ahead of time, no idea that we were treating Defense differently from the rest of the bill, that we were treating Interior and HHS different from the remainder of the bill. It demonstrates the fact that today the budget process doesn't work.

What we have today is a budget resolution followed by a continuing resolution, and that is all the process really is. Everything else that the budget process calls for has been jettisoned and tossed out the window, and so we have Members knowing less and less about what they are doing at a time when it is more and more important that they know more and more.

The problems I see with the existing system are as follows. No. 1, you don't make real decisions on a budget resolution, and that means that responsible people around here are always at a political disadvantage vis a vis the other kind. There are no dollars appropriated. There are no taxes raised under the budget resolution.

No. 2, the resolution is not a substantive document. It has become more and more a political document which at some time may lead to substantive decisions, but those decisions in the end usually result in a gross departure from the original promises laid out in that budget resolution, both in terms of their eventual impact on specific programs and in terms of the macroeconomic policies that that budget resolution is supposedly designed to produce.

In support of that statement I would simply point to the fact that members have been told on many occasions, "Don't worry about the assumptions, for instance, for the agriculture function. We will change that later on down the line. Don't worry about the assumptions on transportation. We will change it down the line." When the Budget Committee goes through these items, we are really in a weird never-never land, because what happens is we try to draft a set of macroeconomic numbers, and we get into the classic argument of whether or not we should get into line items.

Margie Holt, always used to seriously object to the line item approach that the Budget Committee was taking. Yet at the same time, if you don't take a line item approach, you really don't know what you are doing or how you are getting to your macronumbers.

Mr. BEILENSON. Do you mind if we interrupt as we go along and ask questions?

Mr. OBEY. I guess I would like to lay it all out and then toss it open for questions.

No. 3, another problem is that there is only a tenuous link between the politics and the substance of the resolution. That means that you have escapist budgeting. I would point as evidence of that statement to the last year of the Carter administration, when we produced the so-called "balanced budget" on the floor. In fact there wasn't a chance of a snowball in you know where that budget was ever going to be balanced, but it was produced because it was the only budget that could pass. I would make the flat statement today that because of the lack of linkage between overall macronumbers and specific program numbers in the budget resolution, the only kind of budget resolution that can pass this place is a dishonest one—a phony one.

I think that degrades the entire congressional process. It also encourages cheapshooting. I keep a record in my office, for instance, of members who write asking me to vote for specific increases on my Labor/HHS bill or on my foreign operations bill on the Appropriations Committee, but then turn around and vote against the debt ceiling, against any budget resolution, against any deficit.

I have got one fellow who I think has set a new record. He has written me over 26 times asking me for spending increases, and he has never voted for a budget resolution. It just seems to me that that indicates the cheapness of the whole process.

I saw a couple of members of the Labor/HHS Appropriations Subcommittee vote for every single amendment that was proposed to raise spending on the supplemental a couple of month ago, and yet they are authors of the constitutional amendment to balance the budget.

Again, the system conveniently allows you to walk both sides of the street.

Good morning.

Mr. RHODES. Good morning. I am sorry I am late.

Mr. OBEY. Well, I am glad you are here.

One member offered his own budget resolution this year which raised more revenue than anybody else, and didn't raise taxes as much as anybody else. He simply redefined in his own head what the economic effect of his amendment was going to be. That kind of process cheapshots the administration, whoever is in power; it cheapshots whoever is in charge of trying to put together a budget resolution around here, and individual members have a much greater opportunity to play games with those numbers than the committees do, because the committees after all have the responsibility to get something done.

As the old saying goes, the guy who is rowing the boat generally doesn't have time to rock it, and the budget process gives people who aren't rowing a great opportunity to rock that boat.

It warps the review of the budget process. If you take a look at the numbers that we work with, just run them down this year, we have a budget of $770 billion approximately; $300 billion of that is direct spending which is not subject to appropriation, $170 billion for social security, $117 billion for interest.

That means you have only $460 billion or so in the budget that is subject to appropriation. $245 billion of that spending is mandatory, and it represents entitlements or contracts already entered into. That means that in discretionary spending which is subject to appropriation, you only have about $217 billion, and of that total defense is $126 billion. So this year you are dealing with a deficit of $150 billion and you have only $54 billion worth of programs that you can politically affect under the appropriations process. So we are focusing our attention on a very narrow piece of the entire budget.

Most importantly, the existing process, because it is not tied to specific decisions on budgeting, destroys the committee process. The way reconciliation has been implemented from time to time around here destroys the orderly process which we have.

The committee process is terribly important. It is the only thing that allows this institution to compete with the bureaucracy. It is the only thing that allows us to develop the expertise to intelligently participate in that process, and yet the way the process has been used lately just destroys it.

We have repetitive budgeting. The way the budget system is supposed to work, you are supposed to have a first resolution, then you are supposed to have an appropriation, then you are supposed to have a continuing resolution for the stuff that gets left behind, you are supposed to have the second budget resolution and finally a final continuing resolution. That isn't the way it works.

We have a budget resolution and then we have a continuing resolution and everything in-between gets squeezed out. So the Congress, in terms of making orderly decisions in an intelligent way, has become a national joke. In that sense I agree with the President that the existing process is a Mickey Mouse process.

Mr. RHODES. Does the gentleman from Wisconsin want to proceed before questions?

Mr. BEILENSON. He does. We will question him later.

Mr. OBEY. Yes.

What I would like to do is simply see us do as follows: I would like a process which has the Budget Committee do exactly as it does now. Have them produce their budget plan. Let that serve as a roadmap for the other committees. I would leave the time schedule just about where it is now. Then, after the Budget Committee reports, I would have the Appropriations Committee get together and do something which it does not now do. It is not now forced to make choices.

What happens is that as long as the committees are within their 302 allocations, the 13 subcommittees come in and we spend 6 weeks developing a subcommittee bill and we spend a half hour or an hour in full committee approving it. I think it is crucial to this House that the Appropriations Committee be a committee and not a series of subcommittees. If it isn't, I think we lose an important budget management tool.

So I would have the committee take those 13 subcommittee bills, review them for real at the full committee level, and then send them to the Rules Committee. They become the first 13 titles of the real omnibus budget bill. Under the process, I would also suggest that the Speaker, at the beginning of the year designate which House committees have authority over nondiscretionary spending, and a title in the omnibus budget bill would be reserved for each of those committees, for whatever actions they might make on entitlement programs. Then the Ways and Means Committee would report its tax legislation which would be a separate title of that omnibus budget bill. And the last title of the budget bill, for the real live budget, would be the budget plan which was reported out of the Budget Committee. So all of these would be put together in one bill, all of your specific numbers, and the last title of the bill would be the macro numbers which were set out by the Budget Committee.

Then I would have the following take place. I would have it go to the floor, and you would have a 1-month donnybrook. It would take at least a month, in my judgment, to pass it. What would happen would be this.

If the committee products that were produced out of Appropriations, Ways and Means and the other committees with jurisdiction over entitlements, for instance, if their product was consistent with the numbers that had been produced by the Budget Committee and the House approves them, we could all die and go to heaven. We wouldn't have to worry about it. It would be an easy time.

If it didn't happen, if you had a difference, then the Budget Committee would have first right of recognition, as you go through each of those titles, to offer amendments. They would have authority to offer amendments to bring that committee product in line with their suggested budget plan, and the House would work its will on those amendments.

At each point the Budget chairman would notice the House about the macroeconomic effect of the action before the House. For instance, if I offered an amendment to the Interior Appropriation bill to add $250 million to Lorcom, that amendment would have to carry a fiscal note. That amendment would indicate not only what the increase in the amount was for that specific item, it would have to indicate what that meant in terms of overall adjustment of the overall BA and outlay figure in that appropriation bill and would also have to indicate how much that would add or subtract from the deficit, right in the fiscal note, so that each time a member offers an amendment, he carries the macro burden as well as the micro burden.

At the end what you have in effect built, while you are producing each of your titles to the omnibus bill, what you would be building would be a set of numbers which in the end would be offered as a substitute for the macro numbers that were in the original budget plan put out by the Budget Committee, and which would be operating as the last title of that bill.

If the House then adopted those numbers, so that they adopted and ratified officially what they had done in micro terms, then fine, it would be mathematically consistent, you could send it to the Senate.

If the House refused to do this, then the Budget Committee would have the authority to offer a substitute changing any of the numbers that the House had adopted in the first twenty or so titles, to make them conform to the Budget Committee numbers in that last title, or any adjustment inbetween.

Let me first tell you what the arguments would be against it. People will say the omnibus approach was tried after the Reorganization Act of 1946 and it didn't work. I would simply observe lots of things have changed since then. The House wasn't televised at that time. Very few people paid attention to the Congress in those days. We were really much more an anonymous institution, had very little press coverage.

I would also point out that it didn't work under Chairman Cannon for two very specific reasons. No. 1, the 13 subcommittee chairmen opposed it vehemently, and the reason they opposed it, in addition to the fact that they didn't want their individual power clipped, the reason they opposed it was also that Cannon made them run through a group of junior members on the committee, and had that group of junior members approve what the subcommittee chairmen had done, what the old bulls had done at that time. A seniority conscious Congress just was not going to tolerate that.

This is an entirely different Congress today, and political imperatives are a whole lot different than they were back then. I know that there was substantial support within the Appropriations Committee, among the subcommittee chairmen last year to put all of the appropriation bills together in one bill. I think there were only four people, if you take the big chairman and all of the subcommittee chairman, only four people within that group who were opposed to the idea. If you had the pressure of the leadership and the institution behind that idea, it would get done.

I think it could have been done this year if we had wanted to push it.

The second argument you will have is that people will say it will take too much time. I hope that people who say that don't say so with a straight face, because I would point out that we are 2 weeks away from the beginning of the fiscal year and we still don't have dollar one in place for the new fiscal year.

There is no system that human beings could devise that would take more time than the existing system, and as I said, the process that we have has meant that all we do is go from the original budget resolution we had to take eight cracks at that this year before we finally passed one to a continuing resolution.

People will say there isn't going to be fiscal control unless that resolution passes first. I think the idea that the Budget Committee gets its strength from being able to bring a resolution to the floor first is a conventional but very wrongheaded idea. In fact, I think that the principal weakness of the Budget Committee lies in the fact that it has to bring to the floor a resolution to implement what it wants done. The best way for the Budget Committee to be effective is to be the enforcer, rather than having to run the gauntlet, with real numbers, while every individual Member who wants to can cheapshot the whole product. You have a mini debt ceiling situation on your hands, where everybody votes for the actions that cause spending but they don't want to vote to ratify their actions afterwards.

As I see it, fiscal control under this system is established in three ways. First, up front because the Budget Committee gets to define ahead of time what the roadmap ought to look like and what the macroeconomic numbers ought to be. Next, in the middle by having the right to offer amendments to any title, acting officially as the Budget Committee rather than just as individual Members.

The Budget Committee chairman wouldn't think of offering amendments under the existing system. He would get shot up if he tried except in rare instances.

Then in the end he also has the enforcement mechanism because the House is required to adopt in macroterms right then and there what it did through the process in microterms. If they are not willing to do that the Budget Committee has the authority to produce a substitute which adjusts any number it wants. In my judgment if the deficit has been significantly increased under that preceding process, all the good luck in the world and two rosaries are not going to pass that adjustment amendment. Members are not going to do that with the political realities today.

I would simply say that what this kind of a system would do is to finally have us do what virtually every State legislature in the country does. My State would never think of dealing with appropriation bills without also dealing with revenues at the same time. They are put together in the same piece, and if you want to take credit for the goodies that you have on spending, you have to take credit for the baddies that you have on taxes. And if you are not willing to do both, then you don't get cut in on the goodies when the goody package is put together, and that means that Members are a whole lot more interested in what the institution produces rather than what they can produce individually for press releases back home.

It means that you make all of the decisions in one package. It means that the committee system is allowed to work. It means that in contrast to the present system, all of the Members of this House will have an opportunity to participate in the areas of the process that they know something about, and you won't have that incredible feeling of alienation which existing practices have created.

I think most importantly, it would force one whole lot of informal accommodation around this place, because this kind of a system could not work if the leadership were passive, and I mean on both sides of the aisle. You would have to have the leadership working very closely with the Budget Committee, with the Appropriations Committee, with the Ways and Means Committee and the other committees involved to force agreement at least on their side of the aisle among the troops, and the minority leadership would be doing the same thing in developing their alternatives. So that instead of having 50 alternatives to choose from around here, we might have 2 or 3 major alternatives, and then Members would be free, as they ought to have a right to be, to offer specific amendments down the line, with the understanding that if they are going to amend the micronumbers they are also going to have to amend the macronumbers and then wind up having to take the heat not only for what they do individually on a specific program, but also what they do collectively to the fiscal policy and process of the country.

That is basically what I would like to see done, I should say that a number of people have been very interested in this process. I know Dick Gephardt has been extremely interested. I know Ed Bethune has. I believe that there is so much resentment about the existing process that if we are willing to really do something dramatic, you can get a lot of support out there.

I think anything that simply tinkers with the existing process and retains the budget resolution is fundamentally flawed. I don't think it will solve any basic problem. It may make it marginally more respectable, but unless you get away from this idea of promising to do in May what you wind up taking a year and a half to deliver down the line, and actually put it all in a real budget with real dollars and real program adjustments, you aren't going to get Members to face up to or to fundamentally understand what it is that we are all doing here.

Mr. BEILENSON. Thank you very much, Mr. Obey.

I think it is fair to say—Members can correct me if I am wrong—in terms of informal discussions amongst members of the task force and also from the testimony we have heard from other Members, that first, there is strong support for retaining a budget process, very little talk about doing away with it, although there are a few scattered Members throughout the institution who would have us do that; but second, virtually all of the suggestions have been in effect what I think, Mr. Obey, you would describe as tinkering with the existing system, making marginal changes. You are probably, so far as I am aware, the only one that proposes quite a drastic change.

That the existing process was intended to be or should be a transitional process to a real budget process, as you put it, is really not the position thus far of a lot of other Members, although I must say that this Member from the beginning has liked very much the idea that the gentleman suggests. I read your remarks describing this plan in the report accompanying this year's budget resolution, which is where a lot of us first read about it.

At the same time, there would be a lot of questions because it would be quite a changed process from the one we have now.

To the extent we can answer those questions in advance and resolve people's anxieties about it, it would be a useful thing to do. Perhaps we might start trying at this moment.

Mr. Rhodes over here is one of our stellar members who unfortunately we lose next year. Maybe we could just retain you for purposes of improving the Budget Act.

Mr. RHODES. I can be had.

Mr. BEILENSON. Perhaps you have some questions to start with.

Mr. RHODES. First I want to thank my good friend Dave Obey for coming here. As always, he has added a lot of very good thoughts to this whole process, and it is certainly complex and deserves the best thinking of all of us.

I came in just about the time you were talking about the committees, and while I agree with you as to the importance of the committee process, I don't agree with the statement you made that you think that the present system is ruining the committee system. I hope it doesn't. I do think that maybe it is putting the committee system back to where it probably should have been, which is in a posture to serve the ideas of the majority of the House as distinguished from the majority of the committee.

You have seen and I have, too, too many times in which you get sweetheart operations between a committee and its jurisdiction, and I looked upon the reconciliation bill last time, which I said at that time was a draconian experience and I hope we didn't ever have to do it again, but it was an attempt to impress and to force, if you will, on some of the committees the will of the entire House to prioritize, as you have said, some of the activities and some of the funds which the committees were responsible for into a mold which would fit the ideas of the entire House concerning trying to work for a balanced budget and the like.

I expect I had better stop and let you address yourself to that, because I bit off quite a hunk there, and then I have another question.

Mr. OBEY. Well, John, I think that a reconciliation process under the existing system is crucial, because that's the only way you can get any reductions in anything but appropriated items, the entitlements and direct spending items. The only way that you can enforce that under the present system is through reconciliation, and I don't have any problem with that.

My objection with the way reconciliation has been used is that reconciliation can be used to impose specific numbers on committees without going beyond that and defining how those numbers are to be achieved. It is ridiculous when you look at some of what was done. I don't think there was any budgetary consideration in the question of whether we should extend the licenses for radio and television stations last year. They were extended in the budget resolution, in the Reconciliation Act; 90 percent of the members when they voted on it didn't know that.

Mr. RHODES. That is true.

Mr. OBEY. And they still don't know it, and the problem that I see is that that happened without that subject ever receiving one word of debate on the floor. It happened on a bill that had nothing whatsoever to do with broadcasting policy, and that is what I mean when I say it destroys the committee system.

I think the problem we had under the old system is that you had an Education and Labor Committee which was looking at one little piece of the world and an Armed Services Committee which was looking at its little piece of the world, but nobody cared about how big the world was getting, and I think that the advantage of the existing process is that it does make them be responsible more to the institution than to their committee.

Mr. RHODES. That is exactly what the process was supposed to do to begin with.

Mr. OBEY. But in the process of doing that, I think it has gone so much the other way in terms of attacks on people's right to at least have a say in what is produced that we really are writing everything on the floor, and we are writing a whole lot of things on the floor that have nothing whatsoever to do with budget policy, and as I say, this year not a single dime in place, not a single appropriation bill is likely to be in the law before we go home for the elections, except perhaps the housing bill, and that is just disgraceful.

Mr. RHODES. Let's talk about that a little bit. I agree with you that the time table is way out of kilter. We should have been passing appropriation bills, and it seems to me that there are various faults involved. One was, of course, that the budget resolution was not adopted when it should have been.

The second is that very frankly, your own committee dragged its feet I think unconscientiously on the 302(b) process, and actually the Appropriations Committee wasn't ready to report bills, and a lot of it I think was the fault of your own committee.

Do you agree with that?

Mr. OBEY. Well, I would say I am not interested in tossing blame around, but if we want to start, the first people who were late was the administration. The administration sent its budget down late. The Budget Committee then was late in producing a resolution because the House couldn't get a majority for anything around here, and after we did do it, you had virtually every subcommittee in the joint who didn't want to be the first one out of the box, and they had all other internal fights with the subcommittees.

But the main thing, the main problem, John, even if you say that everybody screwed up and everybody totally failed, even if they had done what they were supposed to do, we would still be in this situation, because we simply have added an entire layer to the process without adding any more days to the calendar year, and unless we do something to force the authorizing committees to be ready on time, to force the Appropriations Committee to be ready on time, and get it all dealt with at once, we are going to continue to drib and drab our decisions around here.

We have no final victors around here these days and no losers. We just keep coming back to the well.

Mr. RHODES. When we set up the budget process several of us who were on that committee realized that we needed to have something, some means of forcing the House and the committees to act at a given time. The first budget resolution, there is no sanction, if you don't pass the first budget resolution by May 15, nothing happens.

Something should happen. I had the idea, and it wasn't adopted, but nevertheless I still think it might have some merit, that if the first resolution is not timely adopted, that the President's budget, whoever the President may be, then becomes the congressional budget. There are a lot of people who aren't going to want that to happen and they might not want it to happen enough so that they would get busy and get another budget adopted, but at least if they don't, we'd have some sanction. You'd have a budget, and you can proceed with your 302(b) work and get that done.

This is just one of the things that I think could possibly help to speed up the timetable.

Mr. OBEY. You know you can do that, but again then what you do is you create another incentive on the other side. If I were a Member of the House who was in support of the President's budget, be it Reagan's or Carter's or anybody else's, I would do everything possible under those circumstances to screw up the system so that it would kick in automatically.

Mr. RHODES. That can happen, no doubt about it.

Mr. OBEY. We can do all of these things, but I am just fundamentally convinced that the way the system works now, the only thing you can ever pass is a dishonest resolution. Before you came in here I made the flat statement that under the existing conditions the only kind of budget resolution you can pass today is one that lies. We did it under Carter, we have done it under Reagan, and we are going to do it under every President for as long as any of us are here, unless we change the system, because you cannot get Members under the existing system to face up to what the real numbers do. You always wind up having phony economic assumptions and all kinds of phony numbers on estimating.

Mr. RHODES. May I quote myself. I have always said that the budget is a combination of three things, hope, fears, and lies.

Mr. OBEY. Yes.

Mr. RHODES. Now maybe I should reverse that order.

Mr. OBEY. Well, it is all three.

Mr. RHODES. Let me ask another question. You mentioned the fact, and it is a fact, that the subcommittees are always jockeying for position. Nobody wants to be the first out. One reason of course is because there are other constraints of the budget system, but reconciliation just doesn't apply to appropriations bills.

Mr. OBEY. That is right.

Mr. RHODES. Now your idea was to bring in a unified appropriation bill. I wasn't here when it was done before, but as you mentioned, it apparently was in shambles. Incidentally, my own recollection of the stories I heard at that time was not that Mr. Cannon liked it. He didn't like it.

Mr. OBEY. That is right.

Mr. RHODES. He decided it wouldn't work. I think it was sort of forced down his throat in the legislative reorganization bill and he and Mr. Taber just decided they were going to ignore it and they did after that, but nevertheless I am not saying it wouldn't work.

It might possibly, but I wonder if something else would work better, which would be the idea of not engrossing appropriations bills until after they had all been adopted by the House, so that then the whole process would be subject to scrutiny and possible reconciliation before the bills had become law.

Mr. OBEY. What that means is that even if 12 of the 13 appropriations bills are under the budget, you are going to hold up the 12 that are under the budget for one that is over. I think what that also means is that the longer you delay appropriation actions—under the existing system—the cost of direct spending items increase that much more over that time, and the more you warp the system, that's because you focus more attention on that small portion of the budget which is already subjected to 90 percent of the attention.

If you put everybody in that box at the same time, I am for it, and that is what you do with an omnibus bill. I think the problem that you are suggesting is that it doesn't go far enough. I just think you need to put everybody in the same package.

Why is the Federal Government so different? Why are our institutional needs so different that we cannot put together a budget the way the country thinks we put together a budget? The country really believes that we have got a budget and all of the numbers are there at the same time and we vote to up some and down some.

They don't know that the only way we pass a budget resolution is by delaying decisions until a later date. And in addition to just confusion and frustration that exists around here on mechanical problems, I think one of the reasons you have such a delay in the system is because there is such a profund resentment about the system in most committees that all of them are lying in the weeds just looking for a way to avoid having to produce what the budget resolution winds up producing.

I know that is true in the Appropriations Committee. I certainly know it is true in some of the authorization committees, and if there hadn't been a whole lot of pressure on this year, that would certainly have been true on the part of the Finance and Ways and Means Committees as well.

I think the way you get rid of that resentment is to say OK. You say to Ways and Means and you say to Appropriations fine, you can bring your bills to the floor, but if they are too far out of line, in the macro numbers that the Budget Committee produces, then you run a risk of an all-or-nothing, up-or-down, belly-bumping confrontation on the floor, and you better be as close as you can to middle ground or you are going to get rolled, and if that same pressure is on everybody, then I think you have got a chance for the kind of even formal accommodation that have you do what happens everywhere else.

The other thing I, frankly, would like to see, and this will sound wreckless as can be, I would, frankly, like to see in every area except national security that if we don't reach agreement on a budget by the beginning of the fiscal year, I would like to see payless paydays. I would like to see everything come to a halt. I don't like continuing resolutions. In every State that I know of, if you don't have a budget by the beginning of the fiscal year, you don't continue anything. There are payless paydays.

I saw it happen in my State once, and I tell you, people's attitudes change very quickly about what they are willing to compromise on.

Mr. RHODES. That is the ultimate persuasion.

I have another thought, and that is that we make it illegal to turn on air conditioning systems within 50 miles of the Capitol while Congress is in session.

Mr. Chairman, I appreciate the gentleman from Wisconsin taking his time to come here. The presentation he has made, as usual, is very helpful. He is a good friend.

Mr. OBEY. Thank you.

Mr. BEILENSON. Thank you, Mr. Rhodes.

Mr. Bonior.

Mr. BONIOR. Yes, I have a couple of questions or thoughts.

How would your proposal work in terms of the time schedule?

Mr. OBEY. Almost the same way it is supposed to work now. We have the committees submit their initial reports to the Budget Committee at the same time they do now, March 15 or thereabouts.

By May 15 you have the committees who are supposed to produce their product in accordance with the game plan laid out but report all of their bills to the Rules Committee, and you have a target date of June 30 for the House completing action on the budget bill. That gives the Senate after June, July, and August, to put together their side of the package, and September for conference.

Mr. BONIOR. So the Budget Committee reports a month in advance of the other committees?

Mr. OBEY. Yes.

Mr. BONIOR. And of course the direction becomes the guideline for determinations as to how the thing would be played out on the floor, I would suspect.

Mr. OBEY. Yes.

Mr. BONIOR. This would require an unusual amount of leadership, as I guess you mentioned in your testimony, by leaders on both sides of the aisle. Because it seems to me that if this side of the aisle wanted to work in any type of unity, the leadership would have to be constantly coercing members on the Revenue Committee, the Entitlement Committee, to stay in line with the Budget Committee.

Mr. OBEY. Exactly, and that is what I think leadership is paid to do around this place.

Mr. RHODES. Would the gentleman yield?

Mr. BONIOR. Yes.

Mr. RHODES. You are assuming, of course, that the leadership had something to do with the initial deliberations and findings of the Budget Committee.

Mr. OBEY. Sure.

Mr. RHODES. So that actually what the Budget Committee already does has already had input.

Mr. OBEY. Sure.

Mr. RHODES. That is a great ideal. It ought to be done.

Mr. OBEY. I have the old-fashioned idea that Ways and Means Committee, Rules, Budget, Appropriations, all ought to be leadership committees, period.

Mr. RHODES. May I ask one more question? Usually we bring a revenue measure to the floor under a closed rule. If you bring the revenue measure to the floor as part of an omnibus package, would you still have a closed rule apply to that part of it?

Mr. OBEY. The Rules Committee would still determine whatever conditions ought to exist for that. I do want to correct, because I have just been handed a note here, something that was said.

John, you indicated that the Appropriations Committee delayed in the allocation, the 302(b) allocation process. My understanding is that those 302(b) allocations were made within 10 legislative days after adopting the budget resolution, and that it would have been sooner but the committee had to floor manage the veto override and redrafting of the urgent supplemental.

Mr. RHODES. I am glad you corrected me. I apologize to the Appropriations Committee.

Mr. OBEY. I don't think that is footdragging.

Mr. BONIOR. Let's assume that this thing goes forward to the floor under the Rules and someone got up and wanted to increase, let's say, the senior citizens title V. They would also have to increase revenues or would they have to replace existing programs?

Mr. OBEY. They can do anything they want.

Mr. BONIOR. But you said earlier that the micro and the macro picture have been in line with each other.

Mr. OBEY. No, when you offer an amendment on the floor, you would have a number of choices. If you wanted to take title V for instance you say OK, you add $100 million. That means that your amendment would carry the following information.

On line 23, page 169, you are striking out $600 million and inserting $700 million. You would also then be amending two other numbers. You would be amending the total BA and total outlays in that title. The bill would also have a fiscal note to that amendment which would carry the statement that this would be adjusting the deficit upward by $100 million, if that is what you choose to do.

If you choose to take it out of another item, then it would indicate there would be no effect on the deficit, and if you chose to raise the taxes to pay for it, it would also indicate that, but each member would not have the convenience, and as a member who has offered amendments to raise that title in the past, I would not have the convenience of being able to say I am for senior citizens but I am not going to worry about how in the heck we pay for that amendment, or how we handle the macro numbers.

Mr. BONIOR. Let's go to another component of this.

How would you react to a pay-as-you-go scheme, where the member is required to either substitute or to raise revenues rather than to just certify deficits?

Mr. OBEY. I flat out think that is ridiculous.

Mr. BONIOR. For what reasons?

Mr. OBEY. Because there are times in this country when you want balanced budgets. There are times when you want surpluses, and there are times when you want pump priming. The problem is that we have been very good at priming the pump, but we haven't had a process which creates incentives in normal times for putting the money back, and that is what I think the system has to try to do.

I would point out that it is my understanding that almost half of the national debt today has been added since the existence of the existing budget process.

Mr. Bonior. One other question, Mr. Chairman.

I'd like your feelings on the capital budget proposal, a separate capital budget, or how would a capital budget be entertained in your proposition?

Mr. Obey. You can establish a capital budget if you want within the context of this. I mean you can do the same thing whether you have this kind of system or not, it would not either promote or prevent the adoption of a capital budget as I understand it.

I also should mention I know of your interest and I neglected to say that I thought that you ought to in that final title in the budget plan, which is presented by the Budget Committee, I think it ought to have numbers broken down so that you do have listed, so that you break spending down into discretionary and nondiscretionary spending, so that people understand that. I think there ought to be a separate designation for entitlements, so that members have to vote specifically on the size of the entitlement budget, and I also think that there ought to be a number in there which you have to vote for on tax expenditures. CBO puts together a tax expenditure report by functional category. I think the budget resolution ought to track both in macro terms.

Mr. Bonior. Thank you.

Mr. Beilenson. Mr. Obey, as you know, along with some other members I have long been intrigued by your proposal. It seems to me that, among other things the good thing about an omnibus bill is that early in the session various committees and a little bit later on in the session all of the membership, would be involved in the serious business of doing a complete budget, which one hopes would be done by June 30. In the process we would all know that it is a real budget, and that we are working on something that is not only real but would be completed in a relatively timely fashion, if not by June 30 perhaps within a week or two thereafter.

As you suggested and we already know, we have been working on the budget the entire year and nothing real has been done yet. We passed the budget finally, which is good, but virtually none of the other steps have been taken. Here at least you would know you are involved in a process that is difficult, and grinding as it might be—a month long donnybrook as you put it—but at the end of that you would have a budget, and that would be it. We would vote on the budget and we would have done something real. That is what appeals to me basically about your proposal, even though obviously it may have some problems which would have to be resolved, and we may not be successful in persuading a majority of the Members around here to try it.

You touched two or three times, and other Members have too, on something which many of us have spoken about in prior hearings and work sessions. That is the question both of leadership around here and the political will to get something done. All of us to a certain extent, I think, start from the assumption that those ingredients are necessary no matter what the system. You could have the most convoluted, difficult, budget process, and yet if everybody wanted it to succeed and everybody was close enough in terms of his or her feelings about where we should be going and what the figures should be and so on, we could succeed. You could have the most simplified, most sensible system, something even simpler than it is actually possible to have, and if you do not have either the political will on the part of the majority members or interest of leadership of both parties, you still would not succeed. Do you feel that way, too?

Mr. **Obey**. Well, sure. I think what is most important around here is what happens informally. I think the best way that you get budgets put together is if you have people responsible for the revenue and the spending side of it pulled together by the people who are elected by the whole House to run the joint, and you just have a real squeeze act performed until you get them to forget their jurisdictional dunghill considerations and concentrate on their responsibility to the whole. What greatly distresses me, I have talked to 50 Members around here in the last 2 weeks, and I tell you there is such tremendous resentment over this system as we have now, because they feel they have been cut out of the process, and unfortunately a lot of them would like to react by "going back to the old system."

Mr. **Beilenson**. Not too many.

Mr. **Obey**. And that is an absolutely absurd position to take, because the Congress would lose its last opportunity to control priorities and lose any institutional respect the country has left for it if we did that.

Mr. **Beilenson**. I have the greatest respect and affection for the Speaker, and for the minority leader, whom I do not know awfully well, but from a distance seems to be a splendid person, Mr. Michel. I have the feeling that if these two chaps plus a few others among the leadership of both sides, if they would get together and spend a lot of their personal time calling Appropriations and Ways and Means people from the beginning of the session urging them to get their work done, telling them they would like to get their bills out by such and such a time—maybe this goes on, I suspect it does—that that ingredient perhaps might make all of the difference in the world no matter what process we are working under.

Mr. **Obey**. I think it is crucial, but you still in the end have to have a process that does not reward people who want to play games, and under the existing process, what we do is we pass a resolution, and then we do not pass anything until we pass a continuing resolution, so we really have destroyed orderly process.

I would hope that people recognize that the obligations of any budget process or the purpose of any budget process is to enable us to do two things: One, to get a real control over spending, and two, to enable the Congress to make some sensible choices over the direction of resources, and right now what you have is that the Budget Committee passes its resolution, and then the rest of the committees, because they are so frustrated by the situation, spend the rest of the year trying to find a device or trying to find a timing opportunity which will enable them to escape from the consequences of that first act. The reason the budget resolutions never produce what they promise, in addition to the fact that the economy changes, the major political reason they never produce what they promise is that they do not include real judgments in the first place about what is going to happen around here, and you do not have all of the committees plugged in to the process of putting together that whole budget.

I would love to see a steering committee on the Democratic side for a week with all of the chairmen pulled together saying OK, boys, here is what the numbers are going to be. Now how in hell are we going to get the Appropriations Committee and the Ways and Means Committee and the Commerce Committee and the Agriculture Committee together so that our party does not make a damn fool of itself on the floor? How are we going to get these guys together? Forget your institutional interest. How are you going to get together on it.

I think that if you got an omnibus approach where it is all or nothing, and Members know that if they want to take the credit for adding money for title V and if they want to take the credit for NIH and cancer research and F-16's and you name it, then by God they have got to support the document that contains it, and there is only one and it is real and it ain't going to be changed down the line.

Right now we all go home to our districts and we have the opportunity if we choose to take it to stuff one rollcall in one pocket because we say sure we voted for the budget resolution, but you take transportation and you get to that transportation number by assuming a specific cut. The mass transit guys assume it is going to come out of highways and the highway guys assume it is going to come out of mass transit, and what happens down the line is that they do not vote to take it out of either because they do not have a majority for either. If you tied the micro to the macro, and there are no funny numbers, it is all there and you know what you are doing, then you have got a chance of I think pulling people together, but if they figure well, I will define myself a new political situation, you would never get the votes.

Mr. RHODES. Would the gentleman yield?

Dave, you and I, I think, are both strong leadership men. I really think that one of the problems we have had around here has been a lot of the so-called reforms, many of which were good, which have resulted in weakening the leadership. The one I am thinking of mostly, because I had this cross to bear when I was the minority leader, is the so-called reform of the Democratic Caucus, in which the caucus took upon itself the apportioning of committee seats. In other words, deciding what the makeup of the committees would be. The Speaker used to do that, and the Speaker and the minority leader used to sit down.

Mr. OBEY. No, they did not. Oh, I see what you are saying.

Mr. RHODES. I participated in the system myself. No, they did.

Mr. OBEY. I thought you were talking about something else.

Mr. RHODES. No. As a result, one of the reasons that we proposed organizing in December was to get the Congress underway. We cannot get the Congress underway because we cannot appoint committees. Why? Because the Democratic Caucus does not decide what the makeup of the committees is going to be. If you really want to get things moving in a hurry, attack that one, and I would suggest that there ought to be a better way.

Mr. **Obey**. I believe in early organization. I believe in the caucus making the decisions as soon after the election as possible. The question whether the majority caucus is going to determine the committee ratios or not is a classical difference between the majority and minority parties, and being of the majority party, I obviously favor what was done.

Mr. **Rhodes**. I do not think you should not have something to say about it. I just wish the majority would act.

Mr. **Obey**. I agree with you. I am all for early action, but I really do not want to get into the whole question of congressional reform.

Mr. **Rhodes**. If we are talking about making this budget system work, one of the things we need to do is to get the Congress functioning somewhere in January instead of somewhere in February.

Mr. **Obey**. And the administration, because the problem we faced in each of the last 2 years, we have not been able to get budgets from the administration, and when we did, we got them in terms of press releases, but by God, it was a hell of a long time before we got the actual budget documents, and many times we had pronouncements about other nonbudget bills, but no bills actually came down.

Mr. **Rhodes**. I do not disagree with you on that.

Mr. **Obey**. There are plenty of problems all around.

Mr. **Rhodes**. But there is nothing you and I can do about that.

Mr. **Beilenson**. Let me reclaim my time. There are lots of specific questions that we ought to ask, but we are not going to have the opportunity to do so today. Perhaps we can pursue this conversation some other time.

Let me ask you about a couple of specific things. You are talking here about a single bill eventually, I take it, with several titles.

Mr. **Obey**. Yes.

Mr. **Beilenson**. There are several titles. It will eventually be a single bill, and the final title will be the budget resolution. Mr. Panetta, who testified a couple of days ago is generally opposed to wrapping bills up into one package. He supports the reconciliation process, which none of us liked very much a year ago because it rolled so much into one package, but he also said specifically he does not like the idea of a single omnibus bill such as you are suggesting.

One argument that has been made is that perhaps it would put us in a weakened position vis-a-vis a President, any President, who then could veto the whole package rather than just single appropriation bills. Does that strike you as something we should worry about?

Mr. **Obey**. I think Leon is thinking more in traditional terms along the lines of the existing process. I do not think he is thinking in terms of this omnibus bill, and I do not think Leon understands how this bill would work, because we have not had time to sit down.

Mr. **Beilenson**. I asked specifically if he was talking about an omnibus proposal, and he specifically said yes.

Mr. **Obey**. People mean different things when they say omnibus. All I would say is that I cannot think of a situation in which a President would have more of an advantage than the existing situation. We do wrap everything up in the one thing today. It is called a continuing resolution, and the President vetoes it and we do not have a prayer of overriding it. We did not last year, and my own judgment is we will not again this year if it happens. If we are going to say that institutionally we cannot put all of the spending and revenue decisions together, which is all a budget is, then we are saying in my judgment that the Congress cannot intelligently perform its fundamental purpose. Our two obligations as an institution are, No. 1, to protect the Constitution and, No. 2, to exercise effective and intelligent control over the purse, and having 13 separate appropriation bills is not my idea of how you intelligently perform that task. Separating revenues from spending is not my idea of how you intelligently do that task, and having the existing system under which we pass a budget resolution and everything else that is supposed to happen does not get done and you wind up with just a continuing resolution is certainly not my idea of how you perform that task.

Mr. BEILENSON. Let me ask you two more questions, and then we will go to Mr. Frost.

Virtually everyone is supportive of a budget process, and most of us support some kind of reconciliation procedure. Would you describe for us how reconciliation would work be under your plan?

Mr. OBEY. Let me put it this way. There is no real reconciliation process under this. You go further than reconciliation. Reconciliation is simply the process by which at a later date you produce on a promise which you made in the budget resolution. That is all it is.

What you do under this system is the Appropriations Committee has its 13 bills up there together, the first 13 titles of the omnibus budget bill. The entitlement sections or the direct spending sections are the next five or six titles. The second to the last title is the revenue title, and then the very last title is the budget plan which has been brought out of the Budget Committee, and the House instead of voting on something in May which it is going to produce in July or November or 2 years from now, it produces it all at the same time. When it finally votes on that devil, it votes on every decision which is contained in the budget for that year, so there is no need for reconciliation.

The only adjustments that are required are those made as you go along. The Budget Committee has its right of first recognition on every title to offer changes, and then individual Members can offer amendments to adjust each of those titles.

Mr. BEILENSON. The Budget Committee could keep warning not to increase what a committee is proposing to spend or our overall budget is going to be a lot higher.

Mr. OBEY. Sure. You have the budget plan which is the last title of that act. It is out there. You know what all of the macro numbers are. Then when the committees produce their package, the Budget Committee will produce its evaluation of what that whole package does to those numbers.

Mr. BEILENSON. You can buy it or not.

Mr. OBEY. That is your pending substitute to the last title. It keeps changing as the House makes changes in each of the titles along the way. In the end, after the House has, by its actions——

Mr. BEILENSON. Adopted each of the titles.

Mr. **Obey** [continuing]. Adopted each of the titles and adjusted the numbers in the substitute to the last title to reflect what they have actually done, at that point then the Budget Committee says to the House, all right, here is what you have done, are you going to adopt these macro numbers? If there is a difference between what was produced and what the Budget Committee had, but that gap has been brought down to a minimal size, the committee is going to be there promoting the passage of that substitute. If it is not a minimal difference, the committee is going to say well, all right, fellows, you now have a substitute which changed all of these numbers and the budget that you have created by your actions is irresponsible. It is then probably going to go down in a heap.

Mr. **Beilenson**. What do you do then? How can you adjust? How can you go back?

Mr. **Obey**. At that point the Budget Committee has the right, if that action goes down, to offer a substitute which adjusts any numbers that you want in revenues, in appropriations, in any item they want in order to bring it to an acceptable level, and it cannot leave the House until it does it, so you ain't got no budget, you ain't got no resolution, you have got nothing until there is agreement in the House. And that requires the leadership to spend 110 percent of its time forcing accommodation between the committees, between the Budget Committee, between the Appropriations Committee and all the other committees, so that you do get a final product which can get a majority.

Mr. **Rhodes**. And any amendments which have been previously adopted would be of no force and effect.

Mr. **Obey**. That is correct.

Mr. **Rhodes**. If they were not included in the final package.

Mr. **Obey**. That is correct.

Mr. **Beilenson**. But meanwhile the will of the majority is stated on a lot of matters, and to the extent possible those will be included, but you may have to make some adjustments when you realize overall we are spending too much money.

Mr. **Obey**. And so you are reconciling everything immediately up there on the floor. The difference between that and the existing system——

Mr. **Beilenson**. This is real.

Mr. **Obey**. Is that it is real and you are giving every Member of the House an opportunity to take a shot, but if he offers an amendment like you suggested on title V, for instance, raising the money for that program, then you have a fiscal note attached to that amendment which says OK, fine, you are going to add 26,000 senior citizen jobs, but that it also in addition to adding those jobs, which is the nice part of the press release, it is also going to require that you add to the outlays for that title by $160 million, add to the BA by whatever the amount is, and it is going to require that the deficit is adjusted upward by $160 million, unless you take the money from someplace else.

Mr. **Bonior**. Will the gentleman yield?

Mr. **Beilenson**. Yes, I was going to yield to Mr. Frost, but I will yield to you first.

Mr. **Bonior**. I just want to clarify the order in which these titles appear. I am trying to understand the mechanics of it. You have the budget title at the end preceded by the revenue title?

Mr. **Obey**. Well, the first 13 titles would be the appropriation titles. The next titles would be your other direct spending entitlement titles.

Mr. **Bonior**. Why would that not be reversed? Why would you not have the direct spending entitlement before the appropriation in terms of the titles? I am trying to think of a logical order to reach a conclusion to try to change numbers and figures. For instance, you might want to change the revenue figures because of the budget.

Mr. **Obey**. That is right, but the toughest thing in this place is to make Members face up to what they have to do on entitlements and on revenues, and you want to create as much pressure on both of those items as you possibly can. If you deal with your entitlements first, and if they break the bank on entitlements and refuse to make any reductions in entitlements, then the remaining dog that has to take the full shot is that little portion of control and spending which you have in the appropriation, and if you look at the numbers and look at where the greatest departure has traditionally come from the initial budget resolution and the final numbers, it does not come from the spending in that area. It has come from adjustments in the economy. It has come from grossly underestimated numbers on mandatory spending items, and the Appropriations Committee itself plays that game, as you know, because they will on many occasions artificially estimate low on what these mandatory spending items are going to cost, so that it frees up money for discretionary.

Mr. **Beilenson**. Mr. Frost.

Mr. **Frost**. I am sorry I missed part of your testimony, and some of this may have been asked, but how long do you anticipate this whole procedure would take on the floor?

Mr. **Obey**. I think it would take a month.

Mr. **Frost**. What happens if we cannot pass a budget resolution under this procedure?

Mr. **Obey**. Then we get thrown out of office.

Mr. **Frost**. What happens to the country in the meantime in terms of appropriations, in terms of being able to spend money?

Mr. **Obey**. The country cannot spend money until you have got a resolution. You can pass a continuing resolution as we do now, which I personally would like to see not happen, but I am a realist and I know that it would happen. You can pass a continuing resolution until something happens, but I just think that there would be so much political pressure on this place. Right now all of the rewards in the system do not go to people who compromise. The rewards in this place go to people who stake out positions as Percy Purehearts on either side of the ideological track, and they do not have any pressure to compromise, because there are no political rewards for compromising. Under this system the people who do not compromise, the people who voted to pass whatever compromises are around here are going to be in a hell of a lot better shape than the people who stamp their feet and turn blue and let the country come to a halt.

Mr. FROST. If this would fail on final passage, then the appropriation section of it would no longer be before us. It could not be served and submitted to the Senate, do I understand correctly?

Mr. OBEY. That is right. Nothing can pass until that last title of the omnibus budget bill passes. I assume frankly what would happen is that on a number of occasions the first time that the House votes on it it would go down, just as the first time we vote on the budget resolution it goes down, but I would simply make the point that that is no different than where we are today. Today we do not have dollar 1 of spending in place for this fiscal year yet, not dollar 1, and we are not going to except by a continuing resolution.

Mr. FROST. Has anyone asked you about the idea of a permanent continuing resolution that would be triggered as of a certain date at specified levels in law, to avoid this problem of having to pass continuing and having that vetoed by the President?

Mr. OBEY. No, they have not, and I would want to think somewhat about it, but where I come from viscerally is that the more potential chaos there is out there in the country, if the Congress does not do its duty, the more pressure on the Congress to do its duty.

I saw in my State what happened when we had a Democratic governor and a Republican legislature, and we had no budget coming August 1, and it was 8 days of payless paydays, and you had people running back to Madison so fast with their mea culpas, and it took about a day and a half to put together a budget and the blessed thing passed, and we did not have 26 votes for it on the first vote.

Mr. FROST. So you are for structured chaos.

Mr. OBEY. I am occasionally for constructive irresponsibility.

Mr. FROST. No further questions.

Mr. BEILENSON. Mr. Obey, we appreciate very much your coming and sharing your views with us. I find it—as I said earlier—especially intriguing and I hope that sometime in the near future before or as we sit down to try to reach some conclusions, you might be able to join us again and we can discuss specifics of your particular proposals further. We appreciate very much your bringing it to us, and I personally hope very much that something along those lines will be considered by this task force. We thank you.

Mr. OBEY. I do, too.

Mr. BEILENSON. Mr. Hoyer, we appreciate your sticking around so long. Perhaps you will lead off by talking about payless paydays.

STATEMENT OF HON. STENY H. HOYER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. HOYER. No, I do not think I will. First of all, let me start by saying I feel somewhat like a kindergarten student following the principal of the school who is an eminent doctor in his field. David Obey clearly is a student of the budget process, I am not. I have some visceral reactions which, in the context of what you have heard in the first 1½ hours of the hearing, may appear, in my opinion, somewhat simplistic. Nevertheless I am going to proceed with them.

I am a strong proponent of the idea just expressed by Mr. Obey of the need for a unified document setting forth all the parameters of the budget process within a single document. I am going to speak on this point later.

One serious disagreement I would have with Mr. Obey is with his response to Mr. Bonior's question that he would find the pay-as-you-go amendment ridiculous. I would disagree with that simply because it seems to me that the zero-impact amendment, which is the pay-as-you-go amendment, provides the ultimate in discipline. For instance in terms of forcing somebody to make the decision between authorizing $160 million for seniors or $160 million for aid to students' education or $160 million for defense or $160 million for any other object that the Congress may feel is beneficial. It seems to me his response to Mr. Bonior's question is somewhat at odds with his Percy Pureheart example, which I think is an excellent example. I agree wholeheartedly with the former chairman of the Budget Committee—this institution ought to be ashamed of itself the way we perform our budget responsibility. Percy Pureheart would vote for the $160 million and simply add to the deficit, because he has no constraint, nor does the institution have any constraint to somehow realize that when you push $160 million into the budget, something has got to come out on the other side. This system does not now provide for that.

The first test of any process, no matter how good it looks on paper, the true test is how well it works, and I think the system that we have now does not work. That is not to say that the Budget Act of 1974 was a bad act. It was not, and basically I support the process.

However, I think Mr. Obey's suggestion is much better. He is absolutely correct that reconciliation is in fact irrelevant if his procedure is adopted, because his procedure is the ultimate reconciliation and it brings together the entire process at one time.

It seems to me that the budget process includes first of all deciding what you have to spend, second, deciding what objects you are going to spend it on, and third, conducting that process within a given timeframe. We do not have that kind of process, or at least it is not working to that extent.

I believe it to be very unfortunate and a demonstrable example of the failure of this institution to work properly that the Congress year after year has adopted these continuing resolutions in order that the Government can continue to function.

I might say parenthetically to Mr. Frost and to the committee that I have legislation introduced which I call my Government Continuity Act. It is, in effect, a continuing resolution that prevents payless paydays. I want also to add quickly that I think Mr. Obey's observations with respect to the pressure the current situation places on the institution are certainly not all wrong, notwithstanding the fact that I represent some 70,000 to 80,000 people who have been and may in the future be adversely affected by the specter of payless paydays.

Clearly we need some very direct, immediate discipline placed upon our system for it to work. I am going to suggest one or two options from my experience in the Maryland Legislature a little later on.

As I said, I think the performance I have observed to date is intolerable, and I suggest that we carefully review the possibility of accelerating the time process in which we deal.

Last year, of course, I was an opponent of Gramm-Latta 2, because I disagreed with its substance. It seems, however, the process that Gramm-Latta 2 brought to bear was a good one, in that it was a real document that forced us to make real decisions in June of 1981. It seems to me that this must be done. In the Budget Act of 1974 the delay from July 1 to October 1 in beginning the fiscal year has really not effected any greater discipline on the system or produced an ability to come to grips with making decisions. It has simply delayed decisions. My experience in the last 14 years has been that legislatures will delay as long as they possibly can on budgetary matters, and in fact, the Congress delays far beyond the time that it can.

In sum, in terms of the overall picture, I believe we must amend the budget process to bring greater constraints and penalties for not acting in timely fashion, whether it is the first budget resolution to which you refer or the unified document to which Mr. Obey refers.

Now let me speak to some tinkering, if I might. A number of you have heard of my idea. Mr. Frost and I along with Mr. Gephardt and Mr. Panetta are cosponsoring a bill which incorporates an idea that is not new to me but which I have taken from the Maryland Legislature.

In the budget process, as I said before, the first step is deciding what your revenues are, what is the financial pie with which you have to deal. There is no process now in Congress to determine this pie. There has been much talk about a constitutional amendment to provide for a balanced budget, much talk about statutory language to provide for balanced budgets, but very little talk about the sum to which you are balancing. In other words, the figure one uses at the outset of the system either from a macro or micro standpoint that we are dealing with and allocating?

The Gang of 17 this year came to some agreement on basic assumptions. I think this was a very worthwhile procedure. I have proposed in legislation, along with Messrs. Frost, Gephardt, and Panetta, the creation of a board of revenue estimators. That board would be charged with responsibility of reporting on or before December 15 and quarterly thereafter, revenue estimates. The assumptions from those estimates would be binding on both the President and the Congress. The board of revenue estimators we have proposed includes the Director of the Office of Management and Budget, representing the Executive, the Director of the Congressional Budget Office, representing the Congress, and the Chairman of the Board of the Federal Reserve System. This latter inclusion is somewhat controversial because the Federal Reserve does not want to be included within the system, and because Paul Volcker is not overwhelmingly popular at this point in time. But the Federal Reserve was included in this process because the Federal Reserve already does revenue projecting so no new bureaucracies would be needed. Second, the Federal Reserve is perceived to be a creature of both the administration and the Congress but is nevertheless responsive to the Executive; and third, because the reserve must act upon the revenue projections of the board. In other words, the Reserve makes its decisions based upon those projections, and therefore it would give some credibility to the board's figures, and some responsibility for the Federal Reserve to come up with the figures. The board would not be totally political.

Once those figures were promulgated and recommended, the President would be bound by those figures, and anybody in the Congress dealing with budget alternatives would be bound by those figures. Immediately, therefore, you would have what Chairman Jones has referred to in the past as a level playing field, that is, everybody would be playing with the same numbers. Those numbers, of course, may be wrong, but nevertheless they would be uniformly wrong across the board, and the Congress and the President would be dealing in the same ball park.

I think that would have significant benefits. For instances it would preclude one faction of the Congress or one party of the Congress from coming up with a proposal to get more revenues out of the leasing of oil drilling rights, which is obviously controversial, in order to provide for additional spending on unrealistic revenue projections. I think at the outset the proposal would bring some discipline to the system which is sorely needed. Without such revenue projections, you do not have that discipline.

Chairman Jones has suggested an alternative method to attain revenue estimates, which I believe he put in legislation introduced yesterday. He suggested the chairman of the Budget Committee in the Senate and the chairman of the Budget Committee in the House and a designee of the President comprise a board of revenue estimates. He adds, however, as an accommodation to the rationale regarding the Federal Reserve Board, that the board of revenue estimators would consult with the CBO and with the Federal Reserve in making their recommendations. The difference between the two boards is that Chairman Jones' suggestion, the revenue estimates would not be binding on either the President or the Congress, but would simply be advisory in nature.

I think this proposal undercuts the discipline that such revenue estimates would bring to the system. I would add that the original proposal is based on a system that the State of Maryland and many other State and local governments have put to effected use.

In speaking of the ultimate objective of the budget process, and why I like the pay-as-you-go proposal, it seems to me it would allocate effectively the resources that our Government has. Clearly that is what the country does not think we are doing, and clearly that is what underlies the very strong support for a balanced budget in this country in both parties. As the majority whip Mr. Foley, was pointing out the other day, almost every poll indicates the balanced budget concept is one of the most strongly supported ideas across the board, across all interest groups, and across all kinds of people asked about in national polls. That is so because it is such a commonsense idea.

One of the problems I have seen as we discuss these budget alternatives is that, we overcomplicate the process. We make it very complicated, and as a result, this prompts a pooh-poohing of the simplistic notion of the argument that we ought to have a balanced budget. I do not think the public is going to accept the "pooh-poohing" as it were, and I do not think the balanced budget concept is going to go away. As a result, I think we ought to have a pay-as-you-go provision in the omnibus budget bill whereby amendments will not be in order unless they are zero-effect amendments.

Now, other alternative procedures that have been suggested are that we have some extraordinary majority to override the balanced budget, namely, the three-fifths, which is the 60-percent figure that most constitutional amendment statutes contain. Chairman Jones' bill contains an override after the reconciliation process is effective and includes his three-fifths majority in the appropriations process to go above whatever the reconciliation figure is. Most of the constitutional amendments in legislation that I have seen have the three-fifths.

Let me suggest an additional discipline above the pay-as-you-go proposal. In Maryland, if the Maryland Legislature has not adopted a budget 7 days prior to the constitutionally mandated end of the session, it can pass no other legislation, period. It would seem to me that it would be a great impetus to the Congress and particularly to the U.S. Senate to have this kind of deadline. After all, the House for the most part, has adopted appropriations measures, but they have languished in the Senate while the Senate considers legislation which some of us may find interesting politically but are not necessarily critical to the functioning of the country or for the national defense or the public's general welfare.

I think the entire budget process could be done by June 30. I think the extra time only gives us further time for delay. But if the process is not completed by June 30 we could simply provide under the rules that except by a two-thirds vote determining an emergency situation to exist, no other legislation could be adopted by either House until such time as this unified budget were adopted. Because, after all, there is no more important process than determining how we are going to allocate resources for the coming year.

I do not know whether any of you who are much more experienced than I am with the House and Senate feel that there would be any possibility of effecting such a rule, but certainly—I am sorry Mr. Rhodes is not here—that would be a device to bring an impetus to act, and it would be consistent with Mr. Obey's observation that this whole process ought to take a month of full-time activity on the floor of the House to consider the budget.

Now in effect we spend much more time on it, but it is spread out over several weeks. I think if you computed the time that was actually spent on the budget it is not a full month's period of time.

I think that would be a very worthwhile rule for us to adopt, so that we could focus on the balancing and passage of a budget.

Let me in closing make some observations with respect to some of the other proposals. I do not know whether your committee is considering this, but in Chairman Jones' proposal and in the constitutional amendment dealing with the level of revenues and expenditures, there is a proposal which relates to GNP. It is my own feeling that this is totally inappropriate, either for a constitution or a statute. After all, the people of the United States acting through their Representatives should be able to decide if they want to allocate in any one given year, for instance, 40 percent of the total resources of this country to public expenditures, whether it be defense or any other object. They ought to be able to do that irrespective of the decision as to whether or not we are going to have deficits. The allocation of resources spent in this country certainly ought to be left to the democratic process, it seems to me.

I think the system needs some discipline, and that is why I think statutory language is needed requiring extraordinary majorities to be able to take certain actions. So if $160 million is desired to be spent and added to the deficit, I think a requirement for an extraordinary majority to do this might be appropriate.

As many of you probably already know, of the last 20 years 12 budgets could have been balanced. Only one in fact has been balanced. Clearly as Mr. Obey points out, it is not a question of a decision being made to prime the pump by $160 million. No decision is being made. It is being made to spend $160 million on seniors without any negatives whatsoever in terms of tradeoffs, and the budget process ought to be compromise and a system of tradeoffs. It is not now. The President's tax bill could never have passed in 1981 if in fact the Congress had to discipline itself to trade off the loss of expenditures that were necessitated by the cut in revenues. We simply cut revenues and pretended that we were going to borrow—not pretend—we did borrow, to pay for those expenditures.

Mr. BEILENSON. Are there questions? Mr. Bonior?

Mr. BONIOR. I agree with you on the GNP revenue peg that has been suggested.

Mr. BEILENSON. But we refuse to discuss it at this time.

Mr. BONIOR. We don't even discuss it.

Mr. BEILENSON. Sorry we brought it up.

Mr. BONIOR. In the Maryland Legislature for 7 days you can't pass any bills?

Mr. HOYER. We have a 90-day calendar limitation. The constitution provides that if the budget has not been adopted within 7 days of the end of the legislative session, no other bills can pass.

Mr. BONIOR. Is this unique to Maryland?

Mr. HOYER. I do not know. I do know it is an effective device, however, because every member has their own pet project that they want to see moved through. Because the Maryland Legislature is like most others, you put off moving things until really the last minute, and half of the bills pass in the last 7 days. Therefore if you haven't adopted a budget, an awful lot of personal projects of members are going to go down the drain.

I think you could bring that same constraint here, particularly in the U.S. Senate.

Mr. BONIOR. It might be a good idea to survey the States assemblies and legislatures to find out what enforcement mechanisms under the budget they do have.

Mr. BEILENSON. I don't remember if we have any in California. We simply had to come up with a budget. I guess people weren't paid. They were paid with warrants.

Mr. HOYER. Let me say something about not being paid. Of course I represent a large number of Federal employees. As Mr. Obey said you can take the position that except for national defense, which seems to me somewhat of a copout, we can allow people to starve, we can allow them not to have housing, we can allow them not to be educated, but we will defend them.

If we are going to bring the country to a stop because we want to discipline it, because this Congress is not working, let us bring it all to a stop, and let us not just penalize Federal employees or social security annuitants or whatever. That may sound even more drastic than Mr. Obey's comments.

Mr. BEILENSON. I think it is well said. I think Mr. Barnes agrees with you.

Mr. HOYER. I am sure Mr. Parris and Mr. Wolf would as well. We are all captured by our special interest groups.

Mr. BEILENSON. It is their job to represent the folks back home.

Mr. HOYER. Absolutely.

Mr. BEILENSON. A good thing there are only four of you floating around.

Mr. HOYER. Payless paydays is not that bad if it affects everybody across the board, and just not, for instance, 2 weeks ago, 19,000 people who worked for the IRS. As Mr. Rhodes observed, as long as the air-conditioning isn't turned off in the Capitol, well, we can have payless paydays.

Let us shut it down if that is what we want to do. We are not acting responsibly as an institution.

Mr. BONIOR. When do you start in Maryland? We don't get going until February, the middle of February.

Mr. BEILENSON. A little legislature of 80 people can do it.

Mr. BONIOR. If we moved it up to right after the first of the year and saved that month, then we wouldn't have to stay——

Mr. BEILENSON. Mr. Frost is in charge of these changes.

Air-conditioning in January is not a problem.

Mr. HOYER. Right. Mr. Rhodes and Mr. Obey and you on this committee are strong leadership people. I think one of the weaknesses of this institution is that the larger your institution is, the more discipline you have to have. We had much more discipline in a body of 47 than you have here in a body of 435.

As a result, you have the inevitable. You provide for the maximizing of each individual's particular objective while the general objective is submerged. I think you need stronger leadership in the House.

Mr. BEILENSON. We should require that all PAC money be given through the Speaker and the minority leaders so they could thereafter call on the Members for——

Mr. BONIOR. That would be the ultimate.

Mr. BEILENSON. We thank you very much.

There are further questions, but we have two more witnesses.

Thank you very, very much for your testimony.

Mr. HOYER. Thank you.

Mr. BEILENSON. Mr. Donnelly, you are next on our list. Mr. de Lugo, we appreciate your patience.

The gentleman from Massachusetts is next scheduled.

STATEMENT OF HON. BRIAN J. DONNELLY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. DONNELLY. Thank you, Mr. Chairman.

I have a brief prepared statement which I would like to quickly go through and then be available to the members of the task force to discuss or answer any questions that you may have.

As a member of the Budget Committee for the last 2 years, I have heard one refrain over and over again: "If everybody was happy with the job we were doing, we'd know we weren't doing a very good job." I feel the Budget Committee is doing its job extremely well.

Several generations of Represenatives and Senators have been sent to Washington because they promised more and more of Government's generosity to their constituents. Until the Budget Act of 1974, Congress was never required to consider the total effect of its individual taxing and spending decisions. The legislative branch was never required to make a conscious decision on the bottom line—the deficit. It was never required to set priorities among programs, departments, or functions of Government.

Even 8 years later, the budget process is continuing to evolve to meet the challenge of a Government that years ago made promises and assumed responsibilities with little regard for their cost or impact on the 1980's or beyond.

The message that those of us in politics have been given in the last several elections and in tax limitation referenda in many States, including my own State of Masschusetts, is that General Hecker has reached the practical limit of its available resources. The taxpayers are not eager to finance a further expansion of Government's share of the economy.

But the job Government cut out for itself has not been completed. There are still people among us who are poorly housed, poorly clothed, poorly fed, poorly educated and especially poorly equipped to take jobs in the economy of the 1980's.

The challenge we face in Washington now is to allocate the limited resources of Government according to our national priorities. The congressional budget process is the only effective mechanism Congress has had in the last decade to write and enforce a comprehensive program to allocate those resources according to national priorities that are set by national compromise and consensus.

The process requires discipline, and it is not always comfortable for us. But if Congress backs away from its commitment to produce a comprehensive and enforceable budget, or if it fatally weakens its own procedures, it will force the executive branch to fill the policy vacuum, as it did before 1974.

I believe all of us here are committed to the legislative process. We may at some time or another all secretly dream about government by a benevolent dictator, capable of both efficiency and wisdom. But we know that is impossible. We must accept the legislative process as the best practical alternative. It is neither efficient nor uniformly wise. It is, though, more nearly able to reflect the needs and priorities of the people across our diverse Nation than a strong executive branch alone.

We should remain committed to keeping the major responsibility for fiscal policy at the end of Pennsylvania Avenue.

The effective legislative control of budget policy demands a continued strong role for the House Budget Committee. I believe the evidence for this is clear in the budget resolutions adopted in the last 2 years.

The Democratic party worked through the Budget Committee to produce a program worthy of serious consideration. The result was a proposal that generally represented the priorities of the legislative party and made a genuine attempt to reach out to a majority of the Members of the House.

The Republicans from the Budget Committee likewise made a good faith effort to present an alternative that was consistent with their party's goals and was capable of attracting a majority.

I should add that on both occasions, the programs I supported and believed to be correct were defeated in the House. I concede that we lost because those of us who supported the Democratic alternative were outnumbered and outvoted. The effective majority worked its will. When those of us who share my outlook and my set of priorities are once again an effective majority, we will use the same tools that President Reagan and his allies have used so effectively.

The effect of a weakened budget process was clearly demonstrated in May of this year, when the House tried to write its budget on the floor. The result was a disgrace. Spending restraint was abandoned, enforcement of budgetary limits was discarded, and the final product was such a motley bundle of inconsistencies it had to be rejected by the House that wrote it.

If that sort of demonstration of a "more open budget process" becomes the model for future budget deliberations, we would do well simply to concede the dominance of the executive branch on fiscal matters and get out of the budget-writing business altogether.

I strongly urge this task force to support the continuation of an orderly and disciplined budget process in the House, including a central role for the Budget Committee.

At the same time, I believe some fine tuning could add to the efficiency and effectiveness of the current process.

First, the timetable for budget consideration deserves careful review. The authorizing and appropriations committees should be given more time at the beginning of the cycle to present their recommendations to the Budget Committee.

A single, binding budget resolution containing reconciliation should be produced by the present May 15 deadline. We should eliminate the second budget resolution.

This is generally the way the process has evolved anyway, and it makes sense. We would always have the option of revising the resolution if economic conditions warranted. The most important part of the budget process has been accomplished by the spring resolution.

We would limit the ability of Congress to use the budget process effectively to set our national goals if we went back to a second resolution and reconciliation just prior to the start of the fiscal year.

The Budget Committee is the only committee with supervision of all revenues and expenditures. It is in a unique position to evaluate domestic forecasts and project deficits. Therefore, it is logical that any adjustment of the debt limit should be incorporated in the budget resolution. The Budget Committee should be granted sole jurisdiction over debt ceiling legislation.

The rules governing the membership of the Budget Committee deserve close scrutiny.

Members of the Budget Committee should be relieved of their other committee assignments. A matter as complex and as important as the Nation's comprehensive fiscal policy should not have to compete for a Member's attention with other legislative priorities.

By limiting a Member's tour of duty on the Budget Committee to 6 years, we make it more difficult for special interests to develop excessive influence over individual Members or task forces. Along with that advantage is a serious disadvantage. A committee member spends 6 years developing expertise on the budget is forced to leave the committee, while at least one-third of the panel is made up of Members getting on-the-job training.

I do not have any quick or convenient solutions for this dilemma, but I do recommend that your task force study this closely. The Budget Committee's product can only be as good as its members. Assuring high quality and expertise must be the primary purpose of the rules.

The budget process should take special note of two areas of Federal policy that are not now considered.

First, it should include a separate credit budget. The credit policies of the Government, including borrowing, lending and loan guarantees, are in desperate need of careful coordination.

Second, a capital budget should be considered to differentiate between operating expenses and long term investments in land, buildings, highways and other durable assets.

The budget process in general, and the Budget Committee in particular, did not come under attack until they began to exert their real authority. Somebody in Congress has to lead the way to make necessary but all too often unpopular decisions. I hope this task force will acknowledge that. Even though it is not always politically attractive, a strong budget process and a powerful Budget Committee are essential to maintain a disciplined and representative fiscal policy.

Let me just say in conclusion, gentlemen, that I am urging this task force caution as it proceeds with recommendations regarding changing the process by which we in the legislative branch set fiscal policies. I am sure that the members of the task force understand clearly that the process is a very difficult one .

Politically it is a very difficult one, but I am not so sure that there is a better way to do things. It is very easy to say yes to all the various constituencies that exert their influence on individual and collective Members of Congress. It is very difficult to say no.

I wonder if any of the reforms in fiscal policies that have taken place over the last 2 years, some which I agree with, some of which I disagree with, would have ever taken place at any time unless we had this process and especially reconciliation.

I think those of us who disagree with the way that present fiscal policy is working have to understand that what is taking place is because a majority of the people in this Nation through their elected representatives and the election that took place determined that those priorities that had been set by the past administration ought to be changed.

I would think that as time goes on, that there will be a new set of priorities, and we can use the system the same way that those people who have defeated us have used the system also.

Mr. BEILENSON. We are in the majority and we ought to see how the process works for us. If it doesn't work——

Mr. DONNELLY. Then we can abolish it, Mr. Chairman.

Mr. BEILENSON. Mr. Frost.

Mr. FROST. On your question of making the Budget Committee an exclusive committee, how would that work, since people only do serve for three terms, for 6 years; what happens to their other committee assignments, to their ability to accumulate seniority, then won't you discourage people from serving on the Budget Committee because they know at the end of those 6 years they are going to go on the bottom of the list of some other committee?

Mr. DONNELLY. I have wrestled with seniority because it is unique. You make a sacrifice to be on the Budget Committee. Clearly, no additional people come to your fundraisers because you are on the Budget Committee. There is very little you give to people. You spend most of your time taking away. It is a very difficult responsibility.

In regards to other committee assignments, a tremendous amount of time and work goes into the Budget Committee, and I happen to sit on two other committees besides that. I maintain my seniority.

There is a serious question. If you do your 6 years there, where do you go afterward? You have made the ultimate legislative and political sacrifice, because you sat at the beginning.

I hope you people look into the role of the membership, possibly keeping the percentage of it as a permanent assignment, and allowing people to grandfather in seniority on other committees because of the 6 years of assignment that they serve on the Budget Committee. I think that might be an area where you can reward people for making some sort of legislative sacrifice.

Mr. FROST. I have no other questions.

Mr. BEILENSON. Thank you very much for your testimony, sir. I have some questions I won't ask at this time, but will pursue later on, if we may. I just do want to assure you, I think it is proper to do so, that it seems to the chairman at least that the members of the task force generally, and virtually everybody thus far who has testified, have strong feelings that a strong budget process must be maintained.

We have not reached any conclusions. We are just beginning to think about what direction we might go, whether to tinker or make some marginal changes with the existing system, or changes that are more radical as Mr. Obey and others have suggested, but there seems to be almost to unanimity of opinion among the membership generally that it is important to maintain a strong budget process, and I am sure that whatever we will propose will do that.

Mr. DONNELLY. I thank you gentlemen for the opportunity, and I think what you are doing is a wise thing. It needs oversight, especially with the controversy that has been created over the last 2 years. I just am spreading a word of caution that we ought to go slowly and look at this before we make any radical changes.

Mr. BEILENSON. Certainly, in terms of getting votes on the floor of the House, it is necessary to go slow; whether we shall make more than relatively marginal changes around the edges though, we just don't know yet.

Thank you very much.

Mr. DONNELLY. Thank you.

Mr. BEILENSON. Our friend from the Virgin Islands, Mr. De Lugo, we appreciate your patience and we appreciate your wanting to come and testify.

STATEMENT OF HON. RON de LUGO, A DELEGATE IN CONGRESS FROM THE VIRGIN ISLANDS

Mr. DE LUGO. Thank you, Mr. Chairman, I am going to be very brief. I am here both in my role as Delegate from the Virgin Islands and chairman of the Territorial Caucus.

Mr. BEILENSON. Can we visit the territory——

Mr. DE LUGO. We welcome any Member who will come down there, because the shore areas do have unique needs and that is the point I am going to make here with the budget process.

Quite simply, my request is that we need somebody on the Budget Committee, a staffer who would be assigned to work on the policies for the offshore areas. We are Americans in the Territories of Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of Puerto Rico, and the programs are diverse; our needs are diverse; they are different than they are here on the mainland.

For instance, the Virgin Islands are outside the customs jurisdiction of the United States. Puerto Rico is inside the customs jurisdiction of the United States. We have the mirror tax system in the Virgin Islands. That is, the tax laws that are written here in Congress apply to the Virgin Islands but the revenues remain in our treasury. That means when you give a tax cut up here, it impacts our revenues.

It is a very complex thing, and we simply get, because of the larger national issues, overlooked. We simply need someone on the budget staff who will develop the type of expertise that is needed, to help us out with our problem. It is as simple as that.

[Mr. de Lugo's prepared statement follows:]

PREPARED STATEMENT OF HON. RON DE LUGO, A DELEGATE IN CONGRESS FROM THE VIRGIN ISLANDS

Thank you for this opportunity to discuss the special problem the budget process poses for the Nation's insular areas, in my capacity as Chairman of the Territorial Caucus.

To a limited extent, this problem is unique. But I think that you will find that as unique as it is, it has relevance for the budget process as a whole.

The essence of our problem is that the territories are different. We don't fit neatly into the Federal framework.

For reasons that relate more to historical accident than policy intent, Federal programs apply to us on a haphazard and contradictory basis. We are included in some; excluded from others; and differently treated by still others.

The net result is that territorial Americans—and there are three and a half million of us—are still discriminated against in many programs financed by the Federal budget.

In some instances, congressional representation has enabled some territories or all to shed our second-class citizenship in individual Federal programs. But in other cases, the budget process itself prevents equitable treatment of the Americans that we represent.

This is because the budget process often subverts program consideration to bookkeeping.

When the issues are small—as territorial budget issues are on a relative basis—and when the people involved lack political power—as do our non-voting Americans—there is a greater chance that fairness will go unattended.

In the budget process, numbers outweigh need. Past year and preordained budget levels overrule possible policy improvements. And the degree of generality in budget resolutions does not permit the attention needed to address problems which are relatively small on a national scale such as those facing the territories too.

How can we be fair to relatively small issues, such as those involving the territories?

One way would be for the budget committee to assign territorial policy matters to a specific staff member—as does OMB. Such an expert would coordinate congressional budget-making as it impacts the unique circumstances of the territories . . . a function that is certainly lacking now.

Mr. **Beilenson**. I think you make a very valid point. It is one that is relevant not only to your own situation but to all committees and all interests which don't have specific representation on the Budget Committee. There are a good many policy committees which don't have any members on the Budget Committee.

Mr. **de Lugo**. Right.

Mr. **Beilenson**. You mentioned this to us privately and now you have said it publicly, and we appreciate your bringing this sufficiently to our attention. I am not being critical of the Budget Committee, but because it lacks expertise in policy areas which many authorizing committees have, the Budget Committee has made some decisions in recent years which were unwise, and which would not have been made had someone been there with the requisite expertise and background with respect to whatever that subject matter might have been; so you are making a point which has been made by many others who find themselves in the same position, and I think your request is very reasonable and certainly one we shall keep in mind.

Mr. **de Lugo**. It will be very helpful to me and I know to the representatives from other territories to have someone on the Budget staff that we can go to, work with, and keep alerted as to the impact of the various congressional actions on these offshore areas.

We need it. We don't have a vote in the Presidential elections, and of course that gives us less clout. We don't have a vote on the floor of the House, but we do have a vote in committee, and we have these unique needs.

Mr. **Beilenson**. Thank you.

Mr. Frost, do you have any questions?

Mr. **Frost**. No questions.

Mr. **Beilenson**. Thank you very much.

Again I apologize, sir, for making you wait so long.

Mr. **de Lugo**. No problem. It has been educational. Thank you.

Mr. **Beilenson**. We are adjourned until Thursday morning.

[Whereupon, at 12:20 p.m., the task force recessed, to reconvene on Thursday, September 23, 1982.]

CONGRESSIONAL BUDGET PROCESS

THURSDAY, SEPTEMBER 23, 1982

House of Representatives,
Task Force on the Budget Process,
Committee on Rules,
Washington, D.C.

The task force met, pursuant to call, at 10:20 a.m., in room H-313, the Capitol, Hon. Anthony C. Beilenson (chairman of the task force) presiding.

Present: Representatives Beilenson, Derrick, Frost, Bonior, Hall, Panetta, Jones of Oklahoma, Regula, and Loeffler.

Mr. Beilenson. We will start now if we may.

Our task force on the budget process is holding its third hearing today on issues relating to the congressional budget process.

We are fortunate to have as witnesses several distinguished Members who have had active roles in the implementation of the 1974 Budget Act.

Because of our witnesses' extensive experience with budget procedures, I am sure that today's hearing will be extremely helpful in furthering our understanding of issues involved in this complex topic.

In spite of the complaints that are sometimes expressed privately about the budget process, the Members who testified at our two hearings last week had, for the most part, very favorable views toward it.

All of us are personally impressed with the extent to which many of our colleagues in the House have thought about this subject and with the constructive ideas they have developed to improve our procedures.

Although the task force has not yet reached any conclusions about what changes, if any, should be made to the existing process, we are all keenly aware of problems ranging from difficulties in enforcing our budget decisions to our failure to enact appropriations bills on time.

It is our hope that we shall be able to recommend ways to solve some of those problems to our fellow Members in the House.

We very much appreciate the time that our witnesses have taken to be with us today so that we may have the benefit of their views on this important topic.

Mr. Leader, the distinguished gentleman from Texas, we would like very much, if we may, to hear from you at this time.

STATEMENT OF HON. JIM WRIGHT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. WRIGHT. Thank you, Mr. Chairman.

Mr. BEILENSON. With our apologies for the lack of a few of our members who are waiting to take up rules on the floor.

Mr. WRIGHT. That is understandable.

In the last few days of our session everyone has five things that are necessary at any moment and at least three that are urgent, so I fully comprehend and have no problem with that situation.

I am glad that this task force has been appointed. I think you can perform a useful duty, and I would like to say without patronizing in any way that I am impressed with the people who have been appointed to the task force.

I recognize all of you as people who have been creative, thoughtful and constructive, in attempting to improve rather than merely to change structures and systems and methodologies.

Not all change is good in and of itself. Many things are as they are for a reason, but change per se should not be eschewed without first examining it.

I think the Budget Act has served a very useful purpose. Prior to its adoption Congress was in the posture of a man who might have undertaken to build a house and hired 13 carpenters saying to each of them, "Build me a room just as you will," without any blueprint, without any basic plan. He might discover that the kitchen was bigger than the living room, or that there were three living rooms and only one bedroom. He might discover it out of balance.

That is where we were. We were passing 13 separate appropriation bills without any opportunity to view them as parts of a whole, or to make any fundmental judgments as to where our priorities ought to be. Yet, it has given us some problems in the process of solving others.

For one thing it has consumed so much of our year that it relegates to a secondary position what ought to be our fundamental judgments in passing appropriations bills.

It has so postponed our consideration of the regular appropriations bills as to make it very difficult for us to give careful analytical attention to those things which, after all, account for where the dollars that our taxpayers raise are spent.

Last year you may recall we in the House did pass all 13 of the appropriations bills in a timely fashion. In fact, eight of them were pending in the Senate for 2 full months, on the day that the President criticized Congress for not having passed any appropriations bills.

I don't say that by way of criticizing the other body. I say it simply by way of exonerating this body. I think it is important for the public to understand that last year, in a fully timely way, and prior to the adoption of the continuing resolution, we had passed in the House all of the regular appropriations bills, and almost all, if not all, of them had been passed in a timely way.

However, that doesn't answer the problems that confront us.

A year ago January, I joined with some colleagues, Trent Lott, a member of the Rules Committee, and Mr. Gramm, a member of the

Texas delegation, to try to put together a vehicle which could guarantee a balanced budget.

What we suggested at that time wouldn't work today. It would have worked for any of the 26 years that I had served in the Congress prior to last year back to and including some of the days of the Eisenhower administration. It wouldn't have worked last year. It won't work this year. It won't work next year.

What we have proposed, what seemed reasonable to us at the time was that there be a mandate to the Budget Committee to submit a balanced budget, and to the President to recommend a balanced budget, and then that there be a midcourse correction.

We proposed that in January a new look be directed, either the Office of Management and Budget or the Secretary of the Treasury, or the Congressional Budget Office should be instructed to report to the Congress what the reality seemed to forecast as compared with the figures in the first budget resolution.

In other words, how much money actually was coming in in revenues and how much actually was being spent out.

Then it would have directed that the President automatically reduce all controllable appropriations by a fixed percentage necessary to achieve a balance in the budget for the remainder of the fiscal year.

That would have worked, as I say, for every year I had been here prior to last year. It wouldn't have worked last year. It wouldn't work today. It would not work because of the enormous loss in revenue that was mandated by the tax cut of 1981.

You simply can't reduce domestic expenditures by $36 billion, raise defense expenditures by $36 billion and come out even in what you spend, and take some $750 billion of the next 5 years out of the revenues of the country and have a balanced budget. It is impossible.

Here is what I suggest today. I think it is worthy of our very serious consideration. Manifestly we are in a bad situation because of that enormous tax cut and because of the fact that we are in a recession and unemployment is sapping our revenues and increasing need to expend.

Each percentage point of unemployment is supposed to add some $26 or $27 billion to the deficit. Unemployment has increased by 2.4 percent or perhaps 2.6 percent since the summer of last year, which means if that figure is valid, and I think it is accepted by conservative and liberal economists alike, we have automatically seen some $65 billion or more added to the deficit withour our being able to do anything about it, so long as we tolerate the recession and the unemployment.

In addition to that, $98 billion came out of revenues in fiscal 1983 by reason of the tax cut that was voted in 1982. What do we do? How do we get ourselves out of this morass?

It seems to us that the most plausible thing for us to do would be to do as conservatives have so often suggested, try to run the Government like a business. There isn't a business in America that capitalizes all of its capital expenditures out of its annual income.

I don't know of one. I don't think one exists. There isn't a business that would build an office building or build a factory and expect to pay for it out of 1 year's income.

Do as the States do as well. Those States that have prohibitions in their constitution and in their organic law against deficit spending all have a division within their types of spending. They have an operating budget and they have a capital budget.

It seems to me that we have reached the point where in the United States we need to adopt that very sensible procedure. Here we are confronted, according to one of the news magazines, with a rather urgent necessity to expend some $2.5 trillion, if you believe their figures, in rebuilding, repairing, modernizing, updating the basic public infrastructure of our country, the roads, the bridges, the schools, the libraries, the public services of all kinds, the sewage plants, the water works, the drainage ditches that make up the public infrastructure of our Nation.

Those are our capital assets. They belong to all the public, and yet we are told that 40 percent of the bridges in the United States, and that is more than 200,000 of them, are structurally deficient and obsolete, some of them actually dangerous. At least 40 percent of them are more than 40 years old. They were built before 1940.

We face this necessity. Manifestly we are not going to be able to do an adequate job in rebuilding the infrastructure of our country out of operating expenses without running huge deficits.

Therefore, it seems plausible to me that the first and foremost important amendment to the Budget Act ought to be one which would carry out a recommendation made by the Hoover Commission in 1949, which was that we create a capital budget under which expenditures would be separated from current operating expenses.

Capital and investment type programs would be financed separately from the current expense programs, and would be costed out over a period of time sufficient to amortize the investment and to pay for them before they wear out, but not unrealistically expecting us to pay for everything in a current year. To do so seems to be defrauding ourselves.

I have handed to you a very thoughtful piece of paper representing an article that David J. Mahoney, chairman of the board and chief executive of the North Simon Co., wrote for the Washington Post on Sunday, June 13.

It contains, I think, some very valid information which has been overlooked in our frenetic obsessions with the budget. Among other things, it points out that the United States is not broke by any manner or means.

If you add up our wealth and our worth, the lands that we possess and the capital goods that we own collectively as a people, then the debt that we owe is not such an imposing figure, when compared with what we own.

America's debt at the end of World War II was slightly larger than our gross national product. In 1946, less than 40 years ago, the national debt was larger than our annual GNP.

In the late 1950's, our national debt was about 50 percent of our GNP. Today, a $1 trillion debt represents about 28 percent of our GNP, so as a percentage of our gross national product, the national debt has been declining, not growing.

I don't point that out to say debt is good. I don't believe debt is good. Debt ought to be avoided wherever it is possible, but it probably ought not to be something that would frighten us into panic, if we stopped and realized the net worth of this country and the great values that this country represents, and not sell America short.

Mr. Chairman, that is about all I have to say. I just think that one basic change in our budgeting system would be useful. There are people who will say to that we ought to limit the loan guarantees that the Government permits.

I think that would be an outrageous restriction upon the growth of the American economy. I think one can make a case that the loan guarantees in the Federal housing program have made it possible for America to become a Nation of capitalists, to spread capitalism among the people, and allow the average people to own something of their own. Without it, it wouldn't have happened, and the FHA hasn't lost any money.

Fannie Mae-Ginnie Mae home loan guarantees have not cost taxpayers a penny, and for anybody to suggest that we ought to limit that, curtail it, cut it back, it seems to me is to engage in a historic retrogression.

I don't think we find anything alarming there. Rather, I think what we have done has been to create a climate which has made it possible for average Americans to do things that the average citizens of our country weren't able to do 40 years ago.

I get provoked with the people who find nothing in the past 40 years except things to excoriate. It has been a pretty darn good 40 years, to tell you the truth. We have transformed this Nation from a nation of renters into a nation of homeowners.

We have transformed this Nation from a nation a substantial majority of whose citizens never could even dream of getting higher education to a nation where most young people can think about getting higher education, and a great many of them do, and 20 percent of them finish 4 years of school as opposed to 4 percent when I was attending the University of Texas.

We have transformed the Nation from a time when only 36 or 37 percent of the minority youth finished high school to a time when some 79 percent do, and that isn't good enough yet but it certainly is an improvement. I think we have been moving in the right direction.

It offends me for somebody to say, oh, the troubles we are suffering today because we tried to do too much for the people in the past 40 years. I think that is historically inaccurate.

We have the capacity to do things. We have the capacity to be a growing nation. We are not through yet. We can dream great dreams and achieve great things. We don't need to panic. All we need to do is step back and look at it in perspective and realize what a rich, great, powerful land of ours can do and dare to dream and dare to do.

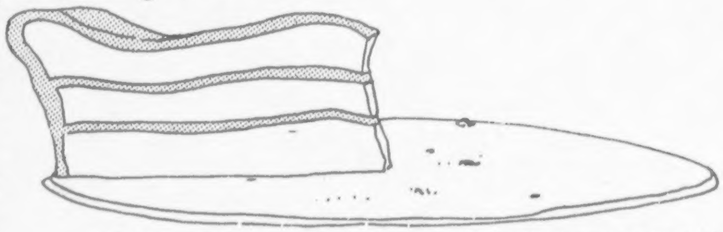
I think a budget system could help us do that by giving us a true perspective, in separating the operating budget from the capital budget. That is the burden of my suggestion.

[The newspaper article referred to by Mr. Wright follows:]

THE WASHINGTON POST, SUNDAY, JUNE 13, 1982

David J. Mahoney

We're Cheating Ourselves



By Tom Gibson

President Reagan and his senior advisers know it. Most members of Congress will admit it. The federal budget process, as we have come to know and love it, is dead. The current system has produced little except partisan rhetoric, fear, polarization and uncertainty about the future course of U.S. economic policy.

Since the passage of the Congressional Budget Act of 1974, there has been an unmistakable deterioration in the budget process. Today, the budget is a political football, often distorting the true relevance of deficits, debt and government spending. In less than a decade, we have succeeded in transforming the federal budget from a decisive instrument of national planning into a national fire hydrant for every cause and special interest group.

The current budget impasse is only a symptom of a deeper problem. The evidence is clear. Decisions are deferred and deadlines are not met. Budgets are repudiated and forecasts invalidated only days or weeks after submission.

With the budget process at its nadir, we have an opportunity and responsibility to devise a new system that, in the words of President Reagan, "befits the great government of a great nation."

The U.S. government's current "unified" budget system lumps operating expenses (salaries for civil servants, office supplies, etc.) with capital expenditures (public buildings, roads, land, etc.). The government makes no distinction between one type of expenditure and another. Construction of a capital asset such as a hospital for veterans, for example, adds to the deficit, whereas the sale of land reduces the deficit. This is done even though the hospital, under normal accounting practices, would be treated as a long-term asset, not a deficit. Also, the government expenses the total cost of that hospital over the one or two years it takes to construct the building— even though the hospital will be in use for 30 to 40 years, or longer.

If business used this system of accounting, the years of greatest capital investment for growing businesses would be the years of greatest deficit, or of markedly lower profits. For example, this type of accounting would have lowered AT&T's 1981 profits to $9 billion from $19 billion.

If the average American followed the federal government's accounting methods, very, very few would ever be able to purchase a car or house.

Today's "unified" budget is misleading in that it not only does not recognize the nation's capital assets, it encourages higher deficits by hiding future-year costs. And it provides no formal planning for the maintenance and replacement of America's vitally important public infrastructure. In an era of limited resources, such as today, a unified budget may also give the American people false information and choices that could lead us to abandon our commitment to education, jobs, health and a better life for the less privileged in our society.

Clearly, a change is needed. But to what? As a first step in rebuilding our federal budgetary system, I suggest our national leaders take a fresh look at an old idea—a capital budget.

The Budget

WE CAN'T GO ON LIKE THIS . . .

Unlike the federal government, nearly all private corporations, state governments and most local governments use a capital budget. Under a capital budget, first proposed for the federal government by the 1949 Hoover Commission, expenditures are separated into current operating expenses and capital investments. Under a capital budgeting system, capital or investment-type programs are financed separately from current expense programs. Included in a capital budget would be current and future maintenance and construction capital requirements, sources of financing, and life-cycle costs.

For discussion purposes, let's assume that we transform the U.S. government into America, Inc., with a business-style balance sheet and capital budgeting system. There would be several surprises.

First, we would discover that America, Inc., has enormous assets that are not widely publicized or known. America, Inc.'s land holdings consist of 500 million acres—one-fifth of our nation's oil and gas resources, 50 percent of our coal, 80 percent of our oil shale, 50 percent of our uranium and 50 percent of our geothermal energy resources.

Unfortunately, no one really knows how much America, Inc.'s total assets are worth—we've never taken an inventory. Capital budgeting would force such an accounting, giving Congress and the president better information on our net worth on which to base national policy.

The second surprise we would discover is that America, Inc., like other large corporations, has a serious need to improve its capital investments program. America's public facilities are wearing out faster than they are being replaced. It is estimated that it will cost between $2.5 and $3 trillion over the next decade to maintain just the present level of services and public infrastructure.

Currently, the U.S. government has no system for planning or setting priorities for public works expenditures other than through wasteful and indefensible "pork barrel" politics. A capital budgeting system would establish a formal system of long-range planning to manage the public infrastructure necessary for private-sector growth rather than focusing on single projects advocated by individual politicians.

Third, a capital budget would give us a new perspective on America, Inc.'s debt and its "deficits." America, Inc.'s long-term debt today is about $1.1 trillion—by any measure, a lot of money. But, rhetoric aside, how significant is a $1 trillion debt? Historically speaking, it's not much to be concerned about. America's debt at the end of World War II was slightly larger than our gross national product. In the late 1950s, our debt was about 50 percent of GNP; by 1974, it was 25 percent of GNP. Today, $1 trillion represents about 28 percent of GNP—hardly a figure to justify the current hysteria and hyperbole.

Deficit projections, ranging from $92 billion to $233 billion are a constant feature of the front pages and a favorite subject for speeches these days. The current "unified" accounting system distorts the significance of these numbers because it ignores our assets.

Don't misunderstand. I am not saying that deficits, particularly in the $100 billion and up range are not important. They are important. They drive up interest rates, compete with private-sector borrowing, and prolong the recession, and they must be dealt with.

But, they must be dealt with in the perspective of America's total net worth. The deficit is not the single most important indicator of our national net worth. The rhetoric surrounding the deficits has caused many Americans to overlook and to doubt their country's real economic strength.

A capital budgeting system would provide a comprehensive and balanced picture of America. It would provide more openness in the budget process and more accurate accounting of total life-cycle costs. Decisions on proposed government expenditures could be made based on hard numbers, not on the poli[illegible] the moment.

The writer is chairman of the board and chief executive officer of Norton Simon, Inc.

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Mr. **Beilenson**. Mr. Hall?

Mr. **Hall**. Mr. Beilenson, I think Mr. Wright raises a very good point. This article has the points that we talked about in a previous meeting. It does say in the article that if Americans were in the accounting systems as the Government runs their accounting systems we probably couldn't buy a car or a house. We would probably all be bankrupt, I guess.

The point is that State legislatures have capital budgets. I don't understand why we don't have a capital budget. It should be separated. We did discuss this, as I remember, and I wish somebody would refresh my memory, possibly a staff person, relative to why they thought this was not the direction we should go.

I think one of the reasons given was there was no way that we could get a handle on the tremendous number of things, the assets that this Government owned. I think that was an answer. To me that was not acceptable, because we ought to know what we own. We ought to have a better understanding, but maybe staff or somebody in this room could refresh at least my memory as to what we discussed relative to this point, because I remember we discussed it very briefly and I thought it was a good article at the time and I still think it was a good article. I think it is a good idea.

Mr. **Wright**. The thing about it, it seems to me, is that it would make a reality out of the idea of a balanced budget. I think a balanced budget is a very good idea. I think it is something we ought to do, but to kid ourselves about saying that we can balance the budget every year and continue the kinds of activities that have to be done, I think is unrealistic.

It would be like a fellow who says, "By golly, I got to balance my budget or else I go into debt," and he means well. He says, "I don't see why the government can't do the same thing."

The Government very well could do the same thing if it did it the way he does it. He is not saying to you that when he buys a house he pays for it in cash out of that year's income. He isn't even saying to you that when he buys a car he pays for it in cash out of that year's income. It would be nice if he could. Some do. Most don't. Most can't.

What he is saying to you is that he has himself a budget that calculates the payments on his car and the payments on his house necessary to amortize it over a period of time, and pay for it before it wears out, and in that sense he balances his budget, and he has a right to expect that his Government conduct its affairs in that same way, but I think a lot of people never stop to realize that it is an unrealistic expectation to say you have got to refurbish all this infrastructure of the Nation and you have got to do it out of this year's income.

Mr. **Beilenson**. Mr. Hall, that is an intriguing question and one which we ought to get into. If we may, let's skip over hearing from staff at the moment. We will get back to it when we are discussing it amongst the members of the task force what the possible remedies are, because I agree that it is something that should be further explored.

Mr. Regula?

Mr. **Regula**. Yes, two questions, Jim.

Suppose you did do this as has been suggested for social security? We have done it for the off-budget items now. Let's just take this capital budget and put it off to the side.

It might make us feel good, but in the final analysis we still have to have the dollars to finance these programs.

Now, the States issue bonds, and thereby in effect balance their budgets. They have so much of their revenue going to debt retirement. If we were to follow this along, are you suggesting that the U.S. Government issue bonds for capital expenditures, a separate item, and then have a debt retirement fund in the annual budget?

Mr. **Wright**. Ralph, what we do today, of course, is issue bonds.

Mr. **Regula**. That is right.

Mr. **Wright**. But the thing we do is to issue bonds indiscriminately. We issue bonds for the whole gamut of expenditures, current, new, future. Who knows? Some of the bonds that are coming to maturity today may be bonds to pay for all B-52's that have been mothballed.

Mr. **Regula**. That is right.

Mr. **Wright**. Or B-24's that have long since found their resting place at Davis-Monthan Field.

What I suggest is that we can have a balanced budget and we ought to have a balanced budget, and the only way I see realistically to require a balanced budget is to separate our operating expenses from our capital expenses, to the end that we would insist upon balancing every year our operating expenses as the State does, as a family does, and then the others could be amortized in each instance over a period of time calculated to permit its full payment during its useful life.

A bridge will have a useful life of 40 years, let's say. A highway may have a useful life of 20 or 25 years, who knows. Some other building may have an expectation of usefulness for 30 years.

A judgment needs to be made in each instance, and some kind of an arrangement made to make certain that it is paid for within the period of its useful life. This country has got an enormous lot of things today that were built during the period of the WPA. Buildings all over America and useful public facilities enjoyed by the American people built by WPA labor. Most people today don't even realize when they are entering one of those structures.

They are all over my home town of Fort Worth. People use them. We have our annual stock show exhibition, rodeo, we have the annual State Golden Gloves Championship, the annual Shriners Circus. God knows how many magnificent public events enjoyed by our citizenry in a building that was built by the WPA. Nobody knows that but it is true, and so that building has had a useful life and a useful service to our public of maybe 45 years, 40 years anyway.

Mr. **Regula**. It seems to me that we are talking about an accounting exercise, whereby you take the capital budget, you put it over here, you put an item in your current budget for debt retirement, and supposedly then at that point the budget is balanced because the debt retirement number is 1/40 of the capital costs or 25 if it is a battleship, whatever.

It still doesn't solve the fundamental problem that confronts us today, and that is crowding out in the marketplace for available savings to finance the costs, whatever they might be, of government, and whether you issue bonds earmarked for a battleship or a new building in downtown Fort Worth, it is still going to take money out of the marketplace. And if you set up an accounting that retires it over that period of years, you still don't escape the crowding out problem.

Of course, you mentioned in your testimony here that we should exclude the loan guarantee programs, and while they may not "cost" us anything in theory, it again crowds out from its marketplace funding that is necessary for housing, for a multitude of private interests.

I think there is a danger that we fail to address the real problem, and that is the percentage of available capital, the totality of it, the percentage that government is consuming in relationship to what is left to the private sector for the "reindustrialization of America" or the productivity investments that are needed—new tractors for farmers, new drill presses in the factories and so on.

I have a fear that we get into the accounting gimmicks and overlook the big problem, which is taking too large a share on the part of government of the available capital resources that come onstream annually.

Mr. WRIGHT. I recognize your concern, Ralph, and I share it to some considerable extent. I think the truth is that public debt, government debt, Federal Government debt over the past 20 years has increased at a much lower percentage than private debt.

Mr. REGULA. That is true.

Mr. WRIGHT. The biggest debt has been mortgage debt, installment debt, corporate debt, business debt, private debt of all kinds. That has grown much more rapidly than Government debt.

Mr. REGULA. That is true.

Mr. WRIGHT. And so if you look at it in its historic sweep, Government debt hasn't crowded out other things.

I guess the Government has to choose what its responsibility is. In a socialistic economy government says, "Well, we are the ones who are going to own the means of production."

In a capitalistic society such as ours, that is not it at all. The Government says, "No, indeed, we don't want to own the means of production. We want them to be privately owned. We would like for them to be as widely owned as possible and for as many people as possible to be given an opportunity to share in the ownership thereof."

Therefore, what do we do? I think in an enlightened capitalistic society such as the one we have been trying to develop and perfect here over these years, we have tried to say that there are things that are in the public interest which government tries to encourage by creating a climate conducive to investment in those things.

We decided that home ownership was in the public interest. We decided it was good for America to try to make it possible for the humblest family to be able to own its own home, and, by golly, we almost achieved that goal. We achieved a great share of that goal.

I don't see that we hurt anybody by encouraging the investment of money in the construction of homes for America's families. I think we helped the country. I think we stabilized the social structure, and I believe in every sense it was a beneficent thing.

We decided some years back that it was a good idea to try to encourage investments in those things that would help our country become energy-independent, and so we passed tax laws that tried to encourage people to invest money in these highly speculative ventures like oil wells, and forward-looking ventures such as alternate fuels, so that we may have some basis for energy efficiency when inevitably our thirst for power causes us to eat up all those reserves of oil and gas that it took nature all these years to lay down under the earth, and those are just judgments that have to be made as we go along, and we decide what is important to the future.

We are fallible, frail, mortal human beings, and sometimes we err in our judgments, but with it all I would have to come down on the side of believing that it is not a responsibility of government to direct the means of production, but it is the responsibility of an enlightened government to try to create a climate that is conducive to investment in those things that serve the public interest.

If we can create inducements that will cause people to invest in modernizing our aging industrial plant and machinery so as to improve productivity and improve our competitive position in the world, I think that is in the public interest.

I think we owe it to the future to do that. I guess that is where we are.

Mr. **Beilenson**. Mr. Derrick?

Mr. **Derrick**. Thank you, Mr. Chairman.

Jim, I appreciate your suggestions and I think there is a lot of merit in it. I know in my State of South Carolina I used to go home and the chairman of the State Ways and Means Committee used to crow about having a balanced budget and when were we going to do it on the national level.

The fact of the matter if we had the same accounting procedure that the State of South Carolina has we would have a surplus. I don't know what the argument was, Tony, when we went from a capital operating budget to a unified budget, but I would suppose that one of the main reasons was to try to exercise some discipline on the big picture, including the capital budget, and I think that your approach is very reasonable, if we can deal with one problem as I see it, and that is how do you exercise any sort of discipline on those capital expenditures.

I can just see if we went into a capital budget next year, we would have new Federal buildings in every town in this country in a matter of 24 months. We would be looking for ways to help the economy like that, and I think that we have to figure out some way that the Congress, the people through the Congress, can exercise discipline on that capital budget.

Mr. **Wright**. I guess that is right, and that ultimately comes down to the responsibility of people like you and me, doesn't it?

Mr. **Derrick**. Well, that is right, but we have to have someone looking over our shoulder with a little information, too, from time to time. As you well know, the debt of State and local government, as I recall it, has gone up some 17, 18 or 19 times in the same period that the Federal Government has gone up just a small part of that.

I would suggest to you that one of the reasons for that, if not the primary reason, aside from Federal funds that have been funneled into the local governments, is that they have had this bonding authority available to them without any real accounting to the taxpayers.

I think that if we can get this worked out your suggestion certainly would be well taken.

Mr. **Wright**. You speak to the human element and it is there, no doubt. I remember the first year I was in Congress, the big push then was for the interstate highway system. The Clay Commission reported. Our first attempt at it failed. In 1955, it was rejected because it seemed too big and called for big increases in road user taxes. The next year it was adopted.

We have done some studies, however, which indicate that massive though that program was, undoubtedly the biggest single public works undertaken in the history of any nation, it has paid for itself back in the economy to the end that every dollar spent building the highway has generated the investment of a calculable $18 in the private sector investing in buildings and in services along the side of these highways, so that I don't know how you can calculate it.

Manifestly a new courthouse or a new city hall or something like that isn't going to create that much more investment, but there are some things that do, and I think it is just up to the wisdom of people in the Congress to make these choices. The public trusts us with the responsibility of making these choices, and I just don't think we can dodge them.

Mr. **Derrick**. I understand that, but you know it is very difficult for a Member of Congress to have the overall perspective of where the money is being spent and what the totals are, if we don't have something along the lines of a financial statement presented to include the capital expenditures as well.

Mr. **Wright**. That is right.

Mr. **Derrick**. And I think this is something that certainly will be dealt with in some way, and I am not exactly sure, but I would like to discuss it with you further at some time.

Mr. **Wright**. Yes.

Mr. **Derrick**. Thank you very much.

Mr. **Beilenson**. Jim, thank you very much for giving us so much of your time. We appreciate it. I hope that we can call on you and Mr. Michel again sometime in the near future.

Mr. **Wright**. Thank you, Mr. Chairman.

Mr. **Beilenson**. Mr. Michel, the distinguished gentleman from Illinois, the distinguished Minority Leader. Thank you very much for your patience. We appreciate it.

STATEMENT OF HON. ROBERT H. MICHEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. **Michel**. Thank you, Mr. Chairman and members of the committee.

I am pleased to have the opportunity to appear before you today to discuss the congressional budget process. Having just listened to the majority leader, I think that the tenor of my remarks will be much more of a nuts and bolts variety than that presented by Jim, although I am doubly pleased to be appearing before you in company of the distinguished majority leader, because I hope that the House can put aside partisan differences when it comes to enacting "true" budget reform.

As I undertand it, these hearings were instituted by the distinguished chairman of the committee, Mr. Bolling. The chairman discussed this with me and I agreed that it would be a good idea for someone to compile information on what has happened, where we are going and what must be done to improve the system for future Congresses.

I recommended to him the names of the Republicans who were appointed to serve in an *ex officio* capacity, on this special task force.

Let me begin by saying that I do believe in the need for a congressional budget process, and I do want it to work.

I do not want to dwell on the history of the process or the politics of the process. I would like to address myself to those major problem areas which I think we have got to address in a purely bipartisan fashion, and they may be outlined briefly as follows: First, economic assumptions; second, macro/micro views; third, authorizations and appropriations; and fourth, enforcement mechanisms.

If I may, I would like to examine each heading separately in more detail.

ECONOMIC ASSUMPTIONS

The economic assumptions are at the very heart of our forecasting and scorekeeping problems.

All the numbers in our budget resolutions and many of the policy decisions we make are driven by economic assumptions. We don't vote on the assumptions. We don't really debate them.

Yet, those are the numbers that count the most—not outlays, revenues, or deficits. They are virtually byproducts of the assumptions.

The trouble is everybody has different assumptions, whether for political, economic or simply accounting reasons. The Senate has different assumptions in their budget and the administration has something else. CBO goes off in yet another direction and the majority and minority in the House have their own preferences.

It is easy to say the process ought to be driven by only one method of forecasting. But what method? Whose method?

Can the legislative branch dictate assumptions to the Executive or vice versa? Is that in the spirit of separation of powers? Is the House going to tell the Senate what to do? Not hardly. Such unanimity is not always compatible with the structure of our Government or the art of deliberation.

The questions are difficult, but I believe we were right to try to establish some common agreements on numbers. Both Houses and the President have shown a willingness to sit down and discuss them. That is a step in the right direction.

I have proposed as a possible solution to this problem, having the Congress establish a range of numbers for those areas most subject to fluctuation; namely, outlays, revenues, and the resultant deficit or surplus.

In this way, both Houses would be acknowledging the prospect of either an optimistic or pessimistic scenario which could take place if we were wrong on any or all of our assumptions.

We would hope that the appropriate levels would fall somewhere in the middle, but we would not have to set into concrete what is the mix of underlying assumptions.

We would recognize that everyone might have a little different view as to what the economic future may be, and hopefully we will be heading in the right direction.

This way, we would not be a captive of the economic assumptions which we have adopted at one time, only to find later that they have changed or are changing.

And, let's face it, there isn't anyone in this town who has even come close on multiyear assumptions anyway. Making assumptions exact is as real as a bar lounge magic act.

Our budgeting should not be a static process as the economy is a fluid thing with fluctuations in either direction. The numbers we choose are actually an average, as you can't stop the economy at any given moment and say, "This is it, this is the magic budget numbers," the numbers are based on trends, and the major indicators are being constantly revised or adjusted.

By establishing a range with good and bad scenarios as the outer limits, we may be better able to judge where we are heading.

One of the failings of our budgeting has been an inability for us to adjust to unexpected economic changes. We have no established gage by which we can measure what is happening.

I introduced a bill (H.R. 6400) last May which would make the changes which I am recommending.

The bill would bring about other reforms such as requiring the Budget Committee to regularly report—at least once every 60 days—where we are with respect to the ranges. We could then see if there is a trend in the right or wrong direction.

If things are going poorly then the Budget Committee may want to recommend that we make some policy adjustments; more or less spending; taxes, or otherwise.

In this manner I think we would be better able to respond to changing economic conditions and act in a more timely manner.

MACRO/MICRO VIEWS

There are essentially two parts to our budget resolutions. The first part is the aggregates: income versus outgo-revenues versus outlays and the resultant deficit or surplus.

The second is the functional categories, how the budget authority and outlays are divided up among the different areas of spending.

When the Budget Act was enacted in 1974, its primary purpose was to better coordinate our income with our outgo. It was proposed to better enable the Congress to decide whether there should be additional spending versus the raising of taxes.

I think we have tended to get away from looking at the macro picture, that is, the aggregates and instead we have focused on the subdivisions of the spending totals, or the micro view.

I don't think we should budget by merely adding up all the spending that everyone wants and adopting the final figure as the budget level. That is "oops" arithmetic. It is not the way American families or businesses budget their income. But that is more or less how we operate now.

I have supported a bill to provide a two-step budgeting procedure which would require the House to first agree on the aggregate numbers and then divide up the pie, reflecting the Congress' view of our national spending priorities.

The minority actually offered an aggregate only budget resolution substitute which almost passed despite the gentle persuasion of the majority leadership.

AUTHORIZATIONS AND APPROPRIATIONS

Another area of concern to all of us is the authorization/appropriation cycle. We have to examine carefully the Budget Act timetable to determine whether we are unnecessarily squeezing out time for action by the Appropriations Committee.

We have two of our members on here, and I am not sure of anyone else who is present here.

I favor the one budget resolution concept. The second resolution comes at a time when the Congress is just completing action on its appropriation bills. It becomes rather pro forma. It is illogical to deal with reconcilation that late in the game.

I believe that we should consider some type of multiyear budgeting but I am uncertain as to whether we should require it for all appropriation bills.

My concern is that without some type of annual review mechanism that we always pride ourselves with on that committee, the House may not have the opportunity to assure the type of oversight required.

Let me give you an example: the Federal Trade Commission. For several years the Energy and Commerce Committee failed to report any authorization because of a fear that the Commission's mandate would be altered.

At that time, many in this House wanted to restrict certain activities of the FTC that they felt were an abuse of the Commission's authority. If it had not been for annual appropriations covering that agency, we would have had no oversight opportunity.

Multiyear budgeting does make sense, but only if we have that oversight and ability to act when necessary.

I believe that we could apply multiyear budgeting to mandatory outlays or indexed entitlements since the spending is legally required.

My only hope is that we also provide some type of "sunset" mechanism to force the Congress into looking at these programs on a regular basis.

Currently, reconciliation has been the only method available to force action on entitlements. We need a mechanism to assure that once enacted, they are not allowed to snowball way beyond their original intent.

As a former Appropriations Committee member, I am concerned about several areas.

One is the so-called 302(A)/302(B) problem involving scorekeeping. The law requires the conference agreement on a budget resolution to allocate the spending levels among each committee. This is the 302(A) requirement.

Section 302(B) requires that the Appropriations Committee subdivide their amount among their subcommittees. Problems have arisen from the Appropriations Committee remixing, as is their right, among areas different from the priorities outlined by the budget resolution.

This leads to problems on the floor, when we hear that such and such a bill is over the 302(A) but under the 302(B).

A possible solution to the appropriations timetable and 302 problems may be in an omnibus appropriations bill, or by requiring the full House to vote on the 302(B) allocations.

I must confess I have a preference for the latter.

The Budget Act now requires that the Appropriations Committee, to the extent practicable, report all their bills before calling them up.

Under the omnibus bill approach, the subcommittees could markup their bills and the full committee package them as separate titles into one bill.

I would be the first to recognize that we are talking now about how we would like to do things here in the House, and I suspect that our brethren over on the other side of the Capitol would have some misgivings here too, because, again, of the timetable.

This would resolve the 302(B) problem. All appropriations would be together. The House could remix the priorities. This would force action on the bills and hopefully expedite their consideration.

I have reservations about this approach, but I think we ought to at least explore it in any budget reform context.

Another serious problem with appropriations is the frequent use of supplementals and continuing resolutions. I think it may be time to reinstate the old deficiency subcommittee of appropriations.

These bills are not now considered in any subcommittee but are instead presented to the full committee by the chairman, sometimes on the very day of markup.

Supplementals are out of hand. They are more than supplementals. They are becoming full-blown substitutes for regular appropriation bills, subverting the process and permitting us to avoid responsibilities of oversight.

I am using the word "deficiency" because that is what a supplemental was meant to be when I was first elected to this Congress some 25 years ago. A supplemental was intended to merely make up for deficiencies that the agencies are about to incur. Supplementals now include frequently startup new spending as well as legislative language or limitations.

ENFORCEMENT MECHANISMS

Sometimes we behave like midnight bandits when it comes to the budget process. Proper enforcement mechanisms are critical to the process, and it is time we faced up to it.

We ought to have some multiyear reconciliation instructions. We should be able to make long-term structural changes particularly in the mandatory or entitlement areas.

If we are only allowed 1 year, as we were this year, there is a tendency to make minor changes for 1 year and then revert back to the old law. We all realize that if we are going to properly address the "uncontrollables" problem, we need to take a long-term view.

Admittedly, one Congress cannot bind another, but let's face it. I think if I have read the statistics in more recent years better than 90 percent or more of the incumbents get reelected, so there is that kind of continuity that would flow from one Congress to another.

The current section 311 ceiling is not totally adequate. It amounts to a "last pig at the trough" approach. Section 311 says we can't consider any measure that exceeds the total outlay ceiling. That is absurd. The last bill that exceeds the ceiling is the only one that gets the ax. I prefer the delayed enrollment enforcement approach that we have tried lately.

I also favor making the first resolution binding as it places restrictions on the money bills early rather than after the fact.

I have seen some of the recommendations of Chairman Jim Jones and CBO Director Alice Rivlin. I am complimented that they have embraced many of the reform provisions contained in my bill as well as others we proposed at the outset of this Congress.

I think all of us have a pretty good idea of what needs to be done. Let's make sure these efforts of Chairman Bolling don't end up on the shelf gathering dust.

While the chairman of the distinguished full committee is not here, I think enactment of worthwhile reforms would be a fitting tribute to him for having the initiative to set up this special task force to accomplish it, and his years of dedication to this institution I think would be well served by whatever memorial we might make in his name, depending upon the by-product of this committee.

That concludes my testimony, Mr. Chairman.

[Additional material submitted for the record by Mr. Michel follows:]

OFFICE OF THE REPUBLICAN LEADER
Robert H. Michel

H. RES. 469

Amending the Rules of the House of Representatives to impose additional reporting requirements on committees reporting bills or resolutions involving violations of the Congressional Budget Act.

The purpose of this resolution is to better educate the House committees, and membership generally, of the provisions of the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344). This would be achieved by requiring committees, whenever they report a bill or joint resolution, to include a statement, separately set out and clearly identified, of any possible violations of the Budget Act which would occur if the House were to consider it in its present form. The committee would also be required to specify any waivers of the provision or requirements of the Budget Act as may be necessary.

The resolution would also require the House Committee on Rules to include in an accompanying statement a brief explanation of why any waiver they propose is necessary. Currently, the Membership of the House is not aware of why a particular provision of the Budget Act is being waived in any "rule" reported by the Rules Committee until the actual debate on the proposed rule has begun. This would give the House an opportunity to reflect on any proposed Budget Act waiver before consideration and to understand its impact before voting on the reported rule.

This House resolution is intended to be a campanion measure with H.R. 6400 introduced on the same day.

OFFICE OF THE REPUBLICAN LEADER

Robert H. Michel

H. R. 6400

To amend the Congressional Budget Act of 1974 to make basic modifications in the congressional budget process to improve its effectiveness so that it will better reflect the economic realities facing the Nation.

Section 1. Annual Concurrent Resolutions on the Budget with Target Ranges.

This section would streamline the Congressional Budget Process by eliminating a mandatory second budget resolution and creating an annual concurrent resolution on the budget. Experience has shown that the second mandatory budget resolution required by Section 310 of the Act comes at a time when the Congress is just completing action on its thirteen general appropriations bills. The resolution, therefore, reflects merely an "adding up" of Congressional action on spending just as the next fiscal year is to begin. The current second resolution is required at a time too late to make significant changes in the spending bills the Congress has just enacted.

It is inherently difficult to estimate outlays and revenues because there are so many different factors affecting the economy (and the budget) at any given time. Economic and budget forecasting is an inexact science. We have seen the problems in trying to determine the exact economic assumptions which underlie a budget resolution and once chosen, how imprecise they prove to be.

Target Ranges

This section would require the annual concurrent resolution on the budget to contain target budget ranges within which the Congress has determined should be --

(1) the appropriate level of total budget outlays;

(2) the recommended level of Federal revenues;

(3) the appropriate level of the surplus or deficit in the budget; and

(4) the appropriate level of the public debt.

Because budget authority is far less suseptible to change than outlays and revenues, new budget authority would be a fixed number, with no range provided.

Each of the ranges shall be determined on the basis of reasonable projections of economic conditions, made in light of all relevant factors and circumstances, and shall extend between the lowest and highest amounts at which the level involved could fall under any realistic combination of such projection and predictions.

The current budget process has been "static" rather than "dynamic." We adopt figures and assumptions for a fiscal year and later change them when we discover them to be wrong; usually when it is too late. The proposal to include ranges of figures for certain of the budget resolutions' targets recognizes the "fluid" aspects of the economy, and the difficulties in trying to rely on one "fixed" set of economic assumptions.

Section 2. Establishment of specific level of total Budget outlays for allocation and related purposes.

This section would make corresponding changes to reflect in the joint explanatory statement accompanying a conference report on a budget resolution an appropriate level of total budget outlays and public debt so that the Congress will have a level to allocate to committees for scorekeeping purposes as well as determine the public debt level for its required statutory adjustment.

Section 3. Permissible revision of concurrent resolution on the Budget and circumstances in which revision is required.

This section would allow the Congress, at any time, to adopt a concurrent resolution on the budget which revises the concurrent resolution most recently agreed to.

This section would require Budget Committees to submit to their respective House a report setting forth estimates and determinations as to what the total budget outlays, revenues, surplus or deficit for such year will be. If, on the basis of such estimates, the Budget Committee (or Committees) determine that such total budget estimates will fall outside the range established by the annual concurrent resolution on the budget, the Budget Committee must report to its House a concurrent budget resolution which appropriately revises the annual (or most-recently agreed to) budget resolution.

This section would also require the Budget Committees to regularly report on the economy and to describe any changes in economic conditions which, in its judgement, are likely to require the reporting of a resolution revising its budget targets and estimates as well as such other appropriate action. Thus, the Budget Committee will be reporting and responding regularly by reason of unexpected changes in economic conditions. This will better enable the Congress to better respond to changing economic conditions affecting the Federal budget.

The Congress will also be better able to see the effect of economic fluxuations on its scorekeeping and policy determinations. The Congress should be capable of making legislative and economic policy decisions with a clearer understanding of the changing economic climate surrounding them. The movement to the budget totals within their respective ranges will serve as a gauge to the Congress in its evaluation of where the economy is heading.

Section 4. Reconciliation Process.

This section would "codify" what, in essence, has been the current practice of the Congress in using the reconciliation procedure, originally meant for second budget resolutions, in the annual budget resolution.

The Congress has discovered that reconciliation cannot work if used in the second resolutions as originally designed by the Budget Act. Coming so late in the fiscal year, (September 15-25), just as the new fiscal year begins, is not the proper time to propose and enact major legislative changes affecting the upcoming fiscal year. Instead, the Congress has used the reconciliation procedure effectively as part of the first resolution when there is ample time to make the necessary changes in law in accordance with the proposed budget resolution.

Section 5. Binding Effect of Concurrent Resolution.

The Budget Act had originally allowed the Congress to make any spending decisions individually prior to the second budget resolution and then adopt a budget resolution with its required binding outlay ceiling after the spending decisions had been made.

This section would require that the budget authority, outlays, and revenue levels contained in the annual budget resolution would become binding once the Congress has adopted it. This would force all spending bills to remain under the outlay level Congress had anticipated.

Section 6. Other Technical and Conforming Amendments.

This section would make technical and conforming changes in both the House Rules and the Budget Act consistent with the other sections of this bill.

Section 7. Effective Date.

This section would make the proposed changes effective with respect to the congressional budget for fiscal year 1983 beginning October 1, 1982, and for each fiscal year thereafter.

IV

97TH CONGRESS
2D SESSION

H. RES. 469

Amending the Rules of the House of Representatives to impose additional reporting requirements on committees reporting bills or resolutions involving violations of the Congressional Budget Act.

IN THE HOUSE OF REPRESENTATIVES

MAY 18, 1982

Mr. MICHEL submitted the following resolution; which was referred to the Committee on Rules

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RESOLUTION

Amending the Rules of the House of Representatives to impose additional reporting requirements on committees reporting bills or resolutions involving violations of the Congressional Budget Act.

Resolved, That (a) paragraph (1) of clause 2 of rule XI of the Rules of the House of Representatives is amended by redesignating subparagraphs (4) through (7) as subparagraphs (5) through (8), respectively, and by inserting after subparagraph (3) the following new subparagraph:

"(4) The report of any committee on any bill or joint resolution of a public character which has been approved by the committee shall contain a statement, separately set out and clearly identified, of any violations of the Congressional Budget Act of 1974 which the committee has determined are contained in the bill or joint resolution as reported or which would occur in or result from its consideration in the House, and shall specify any waivers of the provisions or requirements of such Act which may be needed as a result thereof.".

(b) Paragraph (1)(6) of clause 2 of such rule XI (as redesignated by subsection (a) of this section) is amended by inserting ", or under "subparagraph (4)" immediately after "subparagraph (3)" in subdivision (B).

SEC. 2. Clause 4 of rule XI of the Rules of the House of Representatives is amended by inserting after paragraph (d) the following new paragraph:

"(e) Whenever the Committee on Rules reports a resolution waiving one or more provisions or requirements of the Congressional Budget Act of 1974 in the case of any bill or joint resolution, it shall include in its report or in an accompanying statement a brief explanation as to why such waiver is necessary.".

SEC. 3. The amendments made by this resolution shall become effective immediately upon adoption of this resolution.

I

97TH CONGRESS
2D SESSION

H. R. 6400

To amend the Congressional Budget Act of 1974 to make basic modifications in the congressional budget process to improve its effectiveness so that it will better reflect the economic realities facing the Nation.

IN THE HOUSE OF REPRESENTATIVES

MAY 18, 1982

Mr. MICHEL introduced the following bill; which was referred to the Committee on Rules

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A BILL

To amend the Congressional Budget Act of 1974 to make basic modifications in the congressional budget process to improve its effectiveness so that it will better reflect the economic realities facing the Nation.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

ANNUAL CONCURRENT RESOLUTION ON THE BUDGET

SECTION 1. (a) The heading of section 301 of the Congressional Budget Act of 1974 is amended to read as follows:

"ANNUAL ADOPTION OF CONCURRENT RESOLUTION ON THE BUDGET".

(b) Section 301(a) of such Act is amended—

(1) by striking out "the first concurrent resolution on the budget" in the first sentence and inserting in lieu thereof "a concurrent resolution on the budget"; and

(2) by striking out paragraphs (1) through (7) and inserting in lieu thereof the following:

"(1) the appropriate level of total new budget authority;

"(2) the range within which lies the appropriate level of total budget outlays;

"(3) the range within which lies the recommended level of Federal revenues, and the amount, if any, by which the aggregate level of Federal revenues (for selected levels within such range) should be increased or decreased by bills and resolutions to be reported by the appropriation committees;

"(4) the range within which lies the appropriate level of the surplus or deficit in the budget (resulting from any of the possible combinations of budget outlays and Federal revenues permitted under paragraphs (2) and (3)),

"(5) the range within which lies the appropriate level of the public debt, and the amount, if any, by which the statutory limit on the public debt (for selected levels within such range) should be increased or decreased by bills and resolutions to be reported by the appropriate committees;

"(6) an estimate of budget outlays and an appropriate level of new budget authority for each major functional category, for contingencies, and for undistributed intergovernmental transactions, based on allocations of the appropriate level of total budget outlays within the range established under paragraph (2) and on allocations of total new budget authority;

"(7) if required by subsection (e), the calendar year in which, in the opinion of the Congress, the goals for reducing unemployment set forth in section 4(b) of the Employment Act of 1946 should be achieved; and

"(8) such other matters relating to the budget as may be appropriate to carry out the purposes of this Act.

Each of the ranges set forth under paragraph (2), (3), (4), and (5) shall be determined on the basis of reasonable projections of economic conditions, made in light of all relevant factors and circumstances which can be reasonably predicted, and shall extend between the lowest and highest amounts at which the level involved could fall under any realistic combination of such projection and predictions.".

(c) Section 301(b) of such Act is amended—

(1) by striking out "first" in the matter preceding paragraph (1);

(2) by striking out "shall not be enrolled until" and all that follows in paragraph (1) and inserting in lieu thereof "shall not be enrolled until a subsequent concurrent resolution on the budget has been agreed to or until any other specified procedure which is considered appropriate to carry out the purposes of this Act has been subsequently completed, and, if a reconciliation bill or reconciliation resolution is required to be reported in connection with either such concurrent resolution on the budget or otherwise, until the Congress has completed action on that bill or resolution;";

(3) by redesignating paragraph (2) as paragraph (3); and

(4) by inserting after paragraph (1) the following new paragraph:

"(2) the reconciliation procedure described in section 310; and".

(d) Section 301(d) of such Act is amended—

(1) by striking out "first" in the first and second sentences;

(2) by striking out "as set forth in such concurrent resolution" in paragraph (2) and inserting in lieu there-

of "as set forth in or permitted under such concurrent resolution";

(3) by inserting "(based on allocations within the range established under subsection (a)(2))" after "budget outlays" in paragraph (3); and

(4) by striking out "the level of Federal revenues recommended in the concurrent resolution" in paragraph (4) and inserting in lieu thereof "the levels of recommended Federal revenues within the range established under subsection (a)(3)".

(e) Section 301(e) of such Act is amended—

(1) by striking out "first" in paragraphs (1) and (2); and

(2) by inserting "ranges," after "amounts," in paragraph (3).

ESTABLISHMENT OF SPECIFIC LEVEL OF TOTAL BUDGET OUTLAYS FOR ALLOCATION AND RELATED PURPOSES; ESTABLISHMENT OF SPECIFIC LEVEL OF PUBLIC DEBT

SEC. 2. (a) Section 302(a) of the Congressional Budget Act of 1974 is amended to read as follows:

"(a) ALLOCATION OF TOTAL BUDGET OUTLAYS AND TOTAL NEW BUDGET AUTHORITY.—The joint explanatory statement accompanying a conference report on a concurrent resolution on the budget shall—

"(1) designate an appropriate level of total budget outlays within the range established under section 301(a)(2) by the concurrent resolution as recommended in such conference report; and

"(2) include an estimated allocation of the level of total budget outlays so designated, and of the appropriate level of total new budget authority set forth in the concurrent resolution as recommended in such conference report, among each committee of the House of Representatives and the Senate which has jurisdiction over bills and resolutions providing such new budget authority.".

(b)(1) Section 302 of such Act is further amended by adding at the end thereof the following new subsection:

"(b) ESTABLISHMENT OF APPROPRIATE LEVEL OF PUBLIC DEBT.—The conference report on any concurrent resolution on the budget shall specifically designate, and set forth as a part of the concurrent resolution as recommended in such conference report, an appropriate level of the public debt within the range established under section 301(a)(5) by such concurrent resolution.".

(2) The heading of section 302 of such Act is amended by inserting "AND IN CONFERENCE REPORT" immediately after "JOINT STATEMENT OF MANAGERS".

PERMISSIBLE REVISIONS OF CONCURRENT RESOLUTION ON THE BUDGET; ELIMINATION OF SECOND CONCURRENT RESOLUTION AS PRESENTLY REQUIRED

SEC. 3. (a) Section 304 of the Congressional Budget Act is amended to read as follows:

"PERMISSIBLE REVISIONS OF CONCURRENT RESOLUTIONS ON THE BUDGET

"SEC 304. (a) IN GENERAL.—At any time after the concurrent resolution on the budget for a fiscal year has been agreed to pursuant to section 301, the Committee on the Budget of the House of Representatives or the Senate may in its discretion (subject to subsection (b)) report to its House, and the two Houses may adopt, a concurrent resolution on the budget which revises the concurrent resolution on the budget most recently agreed to.

"(b) CIRCUMSTANCES IN WHICH REVISION OF CONCURRENT RESOLUTION IS REQUIRED.—

"(1) If at any time after the concurrent resolution on the budget for a fiscal year has been agreed to pursuant to section 301 the Committee on the Budget of the House of Representatives or the Senate estimates that total budget outlays for such year will fall outside the range established by such resolution under section 301(a)(2), or determines that the appropriate level of total budget outlays, surplus, or deficit in the budget, Federal revenues, or public debt for such year will fall outside the applicable range established by such resolution under section 301(a), by reason of unexpected changes in economic conditions or for any other reason, such committee shall report to its House a concurrent resolution on the budget which appropriately revises the concurrent resolution on the budget most recently agreed to; and the two Houses may adopt such concurrent resolution.

"(2) Not less frequently than once every 60 days after any concurrent resolution on the budget for a fiscal year has been agreed to (unless prior to the end of the 60-day period involved another concurrent resolution on the budget has been adopted by the two Houses under the proceedings provisions of this section), the Committee on the Budget of the House of Representatives and the Committee on the Budget of the Senate shall each submit to its House a report setting forth its estimates and determinations with respect to the matters specified in paragraph (1) and (if on the basis of such estimates and determinations it is not required under such paragraph to report a concurrent resolution on the budget) describing any changes in economic conditions which in its judgment are likely to require the reporting of such a resolution prior to the end of the fiscal year.".

(b) Section 310 of such Act is amended—

(1) by striking out "SECOND REQUIRED CONCURRENT RESOLUTION AND" in the heading;

(2) by striking out the heading of subsection (a), and the first and last sentences of such subsection;

(3) by striking out subsection (b);

(4) by redesignating subsection (c) as subsection (b); and

(5) by striking out subsections (d), (e), and (f).

RECONCILIATION PROCESS

SEC. 4. Section 310(a) of the Congressional Budget Act of 1974 (as amended by section 3(b) of this Act) is further amended by striking out all that precedes paragraph (1) and inserting in lieu thereof the following:

"(a) INCLUSION OF RECONCILIATION DIRECTIONS IN CONCURRENT RESOLUTIONS ON THE BUDGET.—Any concurrent resolution on the budget may, to the extent necessary to effectuate the provisions and requirements of such resolution—".

BINDING EFFECT OF CONCURRENT RESOLUTION

SEC. 5. Section 311(a) of the Congressional Budget Act of 1974 is amended—

(1) by striking out "After the Congress" and all that follows down through "310(c)" and inserting in lieu thereof "After the Congress has completed action on a concurrent resolution on the budget for a fiscal year, and, if a reconciliation bill or resolution (or both) for such fiscal year is required to be reported by such concurrent resolution on the budget"; and

(2) by inserting "or permitted under" after "set forth in" each place it appears in the matter following paragraph (3).

OTHER TECHNICAL AND CONFORMING AMENDMENTS

SEC. 6. (a) The table of contents in section 1(b) of the Congressional Budget and Impoundment Control Act of 1974 is amended—

(1) by striking out "Adoption of first concurrent resolution" in the item relating to section 301 and inserting in lieu thereof "Annual adoption of concurrent resolution on the budget";

(2) by inserting "and in conference report" immediately after "joint statement of managers" in the item relating to section 302;

(3) by striking out "First concurrent resolution" in the item relating to section 303 and inserting in lieu thereof "Concurrent resolution"; and

(4) by striking out "Second required concurrent resolution and reconciliation" in the item relating to section 310 and inserting in lieu thereof "Reconciliation".

(b) Section 3(4) ot such Act is amended—

(1) by adding "and" after the semicolon at the end of subparagraph (A);

(2) by striking out subparagraph (B); and

(3) by redesignating subparagraph (C) as subparagraph (B).

(c)(1) Section 202(a) of such Act is amended by inserting "changing economic conditions and trends," after "estimated future revenues and receipts,".

(2) Section 202(f)(1) of such Act is amended by striking out "including alternative ways" and inserting in lieu thereof "including the relationship of such priorities to changing economic conditions, and including alternative ways".

(d) Section 300 of the Congressional Budget Act of 1974 is amended—

(1) by striking out "first" in the item relating to April 15 and in the second item relating to May 15; and

(2) by striking out the items relating to September 15 and September 25 in their entirety.

(e) Section 302(c) of such Act is amended by striking out "or 310".

(f) Section 303 of such Act is amended—

(1) by striking out "FIRST" in the heading; and

(2) by striking out "first" in subsection (a) (in the matter following paragraph (4)).

(g) Section 305 of such Act is amended—

(1) by inserting "ranges," after "amounts," each place it appears in subsection (a)(4);

(2) by striking out ", except that" and all that follows down through "15 hours" in subsection (b)(1); and

(3) by inserting "ranges," after "amounts," each place it appears in subsection (b)(4).

(h) Section 307 of such Act is amended by inserting "or permitted" after "set forth".

(i) Section 308(b) of such Act is amended—

(1) by inserting "or permitted" after "set forth" in paragraph (1);

(2) by striking out "contained" in paragraph (3) and inserting in lieu thereof "recommended in or permitted under"; and

(3) by inserting "or permitted under" after "contained in" in paragraph (4).

(j) Section 309(1) of such Act is amended by striking out "other than the reconciliation bill for such year, if required to be reported under section 310(c)" and inserting in lieu thereof "other than reconciliation bills and resolutions".

(k) Clause 8 of Rule XXIII of the Rules of the House of Representatives is amended by striking out "subparagraphs (1) through (5) of section 301(a)" and inserting in lieu thereof "paragraphs (1) through (6) of section 301(a)".

(l) Rule XLIX of the Rules of the House of Representatives is amended by striking out ", 304, or 310" in clause (1) and inserting in lieu thereof "or 304".

EFFECTIVE DATE

SEC. 7. The amendments made by this Act shall apply with respect to the congressional budget for the fiscal year beginning October 1, 1982, and for each fiscal year thereafter.

Mr. **Beilenson**. Mr. Michel, thank you very much. Your testimony was an excellent discussion of some of the major problems that we are confronted with and which many of our previous witnesses have touched upon.

You will be happy to know that many of the points of view which you espouse have been espoused previously by others of both parties, so you are in very good company. We certainly appreciate your specific proposals with respect to economic assumptions, something which, again, everybody talks about. We are going to have to have some way of dealing with assumptions in some flexible manner, perhaps as you suggest.

I hope we do adopt your proposal but we have not yet come to conclusions.

Mr. **Michel**. Mr. Chairman, if I might, forgive me for interrupting, too.

Mr. **Beilenson**. Not at all.

Mr. **Michel**. I want to emphasize that we should try first of all for heavens sake to agree on the doggone basic figures or on the assumptions. I just think it is so darn fundamental.

Mr. **Beilenson**. Let me ask the distinguished minority leader another question. We have already taken so much of your time today.

Could you possibly come back for 5 or 10 minutes after we take a recess for 5 minutes?

Mr. **Michel**. Sure, whatever you say.

Mr. **Frost**. Couldn't we try to see how quicky the questions would go?

Mr. **Beilenson**. Let's wait for 5 minutes and maybe we can finish our questions to you. Are there questions?

Mr. **Frost**. I just have a very brief question.

I agree with much of what is in your statement. I am concerned about the manner in whch we approach this entire problem. There are some people in Congress who would just as soon see the entire Budget Act repealed.

Mr. **Michel**. I have had some moments of frustration myself.

Mr. **Frost**. I can't speak for everyone on this task force, but that does not appear to me to be the view of this task force, that our interest is seeing the Budget Act improved and not see it sabotaged or eliminated.

The question I would as is a tactical question rather than a substantive question.

How would you recommend to this task force that this matter be presented to the floor in what form, and perhaps when during the next session of Congress?

Mr. **Michel**. Of course, it is a little difficult right out of the box when we come back with a new Congress, except for those 90 percent or so that are going to be reelected, to grapple with that, with even a change in the rules or an adoption of amendments to the act as we begin the new Congress.

I am not altogether sure how we would want to do that. It is quite obvious that during the lameduck session, whatever length we have, and if it really does come about, that we could deal with this subject in that timeframe. I don't think we could.

You folks would probably want some time to collect your thoughts and put together some reform package here, but I would certainly be willing to take it on as one of the first things we do in the new Congress.

Mr. BEILENSON. In any case be assured that our efforts will continue on a totally bipartisan basis.

Mr. MICHEL. I think there is no question about that. I hear these fits of frustration from my colleagues, you know, several that I won't mention, but on my own side. You know, just do away with the whole darn system.

Let me say from a political point of view, I can see, for example, my own President in furthering what he would like to do by way of building more constant pressure on the Congress on individual bills. He has actually been denied that opportunity because of this lag in appropriation bill time, you get all forced up to one vote and it is do or die, everything into the one basket.

I could argue the point politically, for ourselves at this juncture maybe it would be best to scrap it and go back to that old appropriation process, because he could make one whale of a lot better case, but I do not think for the long haul and the institution that I would like to see it happen. I would much rather devote my efforts to improving and helping the budget process work to be a real success.

Mr. FROST. This question of timing and the manner in which it is presented is of more than passing interest to me, because I serve as the chairman of the Committee on the Democratic Caucus that is reviewing caucus and House Rules change proposals from Democratic Members and I have taken the position as chairman of that committee that we should not attempt to deal with changes in the Budget Act until such time as this task force has completed its work, and that it would premature for the Democratic Caucus during its organizing caucus in December to try and resolve these very complicated Budget Act problems, but rather to wait until such time as this task force has made a thorough evaluation and has presented its product to both the minority and the majority caucuses for their review.

Mr. MICHEL. I am sure glad to hear the gentleman make that observation because I would sure have to agree with him 100 percent, because we would run into some snags.

Of course, on opening day of rules change that would involve this very complex subject matter.

I think the very fact that there are those around here who recognize you had to have a special task force made up of the kind of members we have got represented here, that the product of your combined efforts here has got to be taken into full account by all the members, in a much more deliberative sort of way, than simply in the limited time that we have in either of our respective caucuses at the time when we have got so many things distracting us, organization and all the rest.

I think it would do a disservice to what you folks are obliged to do here.

Mr. FROST. I thank the gentleman and I may want to have some additional conversations with him on that subject.

Mr. BEILENSON. Mr. Panetta, any questions?

We had better vote. Thank you very, very much for giving us so much of your time. We shall talk to you again later.

We shall recess for 5 minutes to vote and come back to hear from the Appropriations Chairman, Mr. Whitten.

[A brief recess was taken.]

Mr. BEILENSON. We will get started if we may.

Mr. Whitten, we are delighted to have you here, sir.

STATEMENT OF HON. JAMIE L. WHITTEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. WHITTEN. Thank you, Mr. Chairman. I appreciate this chance to testify on the budget task force before your committee.

Under the existing budget process, we have testified before the Rules Committee with some regularity. If the process worked better, privileged appropriation bills would not need nearly as many waivers of the House rules.

Mr. DERRICK. Just be calm, Mr. Whitten.

Mr. WHITTEN. May I say I appreciate your devoting time to reviewing the existing budget process. I was having breakfast with a former Member and told him we were doing this. He said the Congress has just about reformed itself out of business, and that is about the way it is.

I agree that any economist, whether within the Congressional Budget Office or anywhere else, has to rely on assumptions, presumptions, and projections. The congressional economists do as well as any I know, but when you rely on assumptions and projections you have an inexact process.

I am a strong believer in the Budget Act. You may remember that I was the cochairman of the study group which recommended creation of the Budget Committee. I did that because I saw the situation was such that 58 percent of our expenditures were not going through the annual review process. Through entitlements and backdoor measures, 58 percent of Federal spending was avoiding the annual appropriations process. So I strongly recommended that we get a Budget Act to bring these things into line.

The Budget Act, without going into a whole lot of detail, provides for setting targets in the first budget resolution. After hearings and action on appropriations and authorizing legislation, a second budget resolution is called for. The reconcilation process was envisioned after passage of the second resolution.

The original concept was that membership on the Budget Committee would be weighted strongly in favor of those two committees with experience in fiscal matters, the Ways and Means Committee and Appropriations Committee, instead of having it dominated entirely by the legislative committees.

PROBLEMS WITH CURRENT BUDGET PROCESS

The problem with the current process is that it keeps our appropriation process from working, and it has got the Congress just tied in knots.

This may be the second straight year we haven't been able to get an appropriation bill enacted by the start of the fiscal year.

I would like to start off by saying what the objective must be, not what I think it ought to be. On the first page of my prepared statement it just states the end result which we seek. Keep the Appropriation Committee, keep the Budget Committee, do what is necessary to fine tune the process so the end result is that the Congress may go ahead with its business.

Mr. BEILENSON. Mr. Whitten, maybe it would be best for us to vote and come right back. There is another vote on. Maybe we can just recess for 3 or 4 minutes.

Mr. WHITTEN. Certainly, I would appreciate that.

Mr. BEILENSON. Sorry to interrupt you. That might be the best way to do it.

Mr. WHITTEN. I have to vote, too. I appreciate this chance to discuss it with you.

Mr. BEILENSON. We will go and be right back.

[Recess.]

Mr. BEILENSON. Thank you, Mr. Whitten. Why don't you proceed?

Mr. WHITTEN. Thank you, Mr. Chairman.

May I say in appearing here I do submit to you for the record a rather thorough document. It includes comments that I have made at other times before the Rules committee and others, so it is rather thorough from my viewpoint.

THE NEED TO RETURN TO PRINCIPLES OF THE 1974 BUDGET ACT

In appearing here I want you to know, as I mentioned, I have been a promoter of the congressional budget process for years. I was ranking member of the first Budget Committee, and I believe we should keep it, but let me state this. Our committee on appropriations for 37 out of 39 years has been below the budget and the reason we were over budget last year was increased military spending.

Instead of meeting the objective of gaining control of backdoor spending and entitlement programs, the focus of the budget process has been largely directed to those controllable items within the jurisdiction of the Appropriations Committee. We have enough work. We are not complaining about somebody encroaching on jurisdiction as such, but we are saying that the appropriation process is essential to proceed timely or else we break down in the Congress.

As chairman of the Appropriations Committee, I am convinced that unless we restore the right of the regular appropriation bills to be prepared after our extensive hearings and called up when they are ready to be presented to the House, we cannot get the Congress back to the regular order to meet our schedule. This must be done.

We can discuss this forever but if the end result doesn't let the Congress proceed in the regular way and bring up the appropriations bills in a timely manner this budget process review will not be successful. We have a good track record on what we have done in the past in staying within the President's budget and within congressional budget resolutions.

I think we could live with the Budget Act but the budget resolutions in recent years have deviated from the true purpose of the act.

May I say despite misgivings at times, I have voted for every budget resolution. Unfortunately, certain resolutions and/or substitute resolutions have been hastily thrown together.

I have supported the budget process—but with some misgivings. One of the reasons I have had reservations with certain budget resolutions is that I believe there has been a serious misuse of section 301 (b)(2) of the budget act which states that the first budget resolution may also require "any other procedure which is considered appropriate to carry out the purposes of the act." Thomas Jefferson is quoted in my statement on page 5, in his opinion on the constitutionality of the national bank that:

> It is an established rule of construction, where a phrase will bear either of two meanings, to give it that which will allow some meaning to the other parts of the instrument, and not that which will render all the others useless.

I contend that these two lines of the Congressional Budget Act have have abused and the real provisions of the Budget Act subordinated to those words, which is contrary to any construction I ever heard given to any law.

I also quote from Statute and Statutory Construction Volume 2a:

> Section 45.12. Reasonable Interpretation.
>
> It has been called a golden rule of statutory interpretation that unreasonableness of the result produced by one among alternative possible interpretations of a statute is reason for rejecting that interpretation in favor of another which would produce a reasonable result. It is said to be a "well established principle of statutory interpretation that the law favors rational and sensible construction."

I say that the interpretation of the action on those few words obviating and setting aside the principal language in the Budget Act is contrary to good intention. This is not to find fault. It is to try to find an explanation as to why the Congress has bogged down. The people are getting tired of the fact and many of them are concluding we just can't run our business.

I state in the first page of my prepared statement—let us handle our business and proceed as necessary for the orderly operation of Congress. Keep as much of the act as we can as long as we end up with that end result. But where we have runs counter to rational interpretation, counter to the basic tenets of the act, it is likely that that is the cause of the bogging down.

Again, I say that there has been a change in the membership of the Budget Committee from what was originally intended. It was not intended to be a supervisory group running the whole Congress. They are among the finest and ablest folks we have in Congress, and they are my friends, but the Budget Committee was never intended to have congressional management. It was originally intended that those with the major fiscal outlook, the income and outgo, would dominate the committee numerically, and that the legislative committees would also be represented on it.

I could go on and on. I have given the prepared statement to you. I could quote from Mr. Bolling, Chairman of the Rules Committee. I can quote over and over as to what the intention was, but we have got something that is important. The appropriations to run the Government must be made. Let's get back to our business and do it in a proper way. That being true we should make such changes as to let the Congress operate.

Now, there are other factors that we need to consider when changes to the budget process are contemplated. As to the authorization process, although some folks might differ with me, I'm sure that if I date it right I could tell you most anything has been proven by the record.

Prior to 1950, most programs were authorized either on a permanent basis or for multiyear periods. Annual authorizations covered only two programs: military construction and foreign assistance. Over the past three decades, however, the growth of annual authorizations has been dramatic. Three were enacted during the 1950's: Atomic Energy Commission, National Aeronautics and Space Administration, and Department of Defense (procurement). Seven more were added during the 1960's. Despite the objections of the Joint Study Committee in 1973 and the aspirations of those who wrote the Budget Act, 15 annual authorizations made their appearance in the 1970's and several more have been added since.

I don't object to annual authorizations per se, but there should be a deadline or they should live up to the deadline so that we can proceed. In foreign aid, we can't get to work on our business because the authorization isn't in place. It is authorized every year. What you would like to have and what you get are two different things.

Some years ago, Mr. Mahon asked me to testify because he knew how I felt about it. If we could have 2-year authorizations, 2-year appropriations, it would let the executive branch do some planning. One year would be appropriations and one year would be the others, but I am whistling in the dark.

The tendency is to annual. But I do think we must fix it so that if the authorizing committees don't act by a certain date the Appropriations Committee should be able to proceed, or if there is a deadline in here that folks don't meet, don't let it stop the whole Congress, just set it aside.

Again, my prepared statement goes into more detail. It is rather thoughtful. We must return to letting the Appropriations Committee proceed because that is where the hearings are held, it is where the detailed information on financial oversight issues is developed. But currently we are bogged down because deadlines are not met by other committees, which prevent us from proceeding. That is about what it amounts to.

Rather than reading all this to you, I hope you will find time to read it yourselves, because it is from one who promoted the Budget Act, who supports the Budget Act, and who recognizes the need for the Budget Act. But we must keep it from breaking down the Congress.

I commend this to you because I don't believe anybody is more experienced on both sides of it than I am.

As I say, I was senior cochairman of the study group which led to the creation of the Budget Act. But the process has bogged down through abuse and misuse of the act. Changes must be made. But once again, you will see that whatever we do you must let the Congress proceed with its business in a timely manner and fashion.

At this time, Mr. Chairman, I would be pleased to try to answer any questions you or members of the task force may have.

[Mr. Whitten's prepared statement follows:]

Prepared Statement of Hon. Jamie L. Whitten, a Representative in Congress From the State of Mississippi

I welcome this opportunity to discuss the Congressional budget process with you. As many of you know, I was cochairman of the study group which recommended the creation of the Budget Committee—the purpose of which was to gain control of the uncontrollables in the budget, the entitlements and back door spending.

Instead of meeting that purpose, attention has largely been directed to those controllable items that are within the jurisdiction of the Appropriations Committee. Remember our Committee has been under the budget 37 out of the past 39 years, and the reason we were over the budget last year was because of increased military spending.

As chairman of the Appropriations Committee, I am convinced that unless we restore the right of the regular appropriations bills to be prepared after our extensive hearings, and called up when they are ready to be presented to the House, we cannot get the Congress back to the regular order, and meet our schedule. This must be done; how we accomplish this we can discuss, but we need relief in order to do the job which we were elected to do.

I think it is generally recognized that the current system which we have is proving to be unworkable. The Task Force to review the budget process and recommend possible changes is definitely needed. I only hope that the strength of the process will be retained in whatever changes are ultimately adopted. The Congress would be making a big mistake to scrap the budget process entirely. I am not opposed to the Budget Act, and I do not agree that it has proved a failure. There is considerable strength in the Act. What we must do is return to the basic premises of the Budget Act. One of the major reasons we have experienced difficulties with the budget process in recent years is because we have not followed the Budget Act closely enough. In effect, we have been amending the Budget Act through the adoption of various budget resolutions. This process must stop.

I have been a staunch supporter of the Congressional Budget Act during the years. As I stated, I was the senior cochairman of the Joint Study Committee on Budget Control which was the study group which made the initial recommendations to the House Rules Committee which led to the drafting of the Congressional Budget Act. I was the ranking member on the first Budget Committee, and I have supported the various budget resolutions during the years. I am dedicated to maintaining an orderly budget process and I believe such a process is needed to maintain budget control.

Under the present circumstances, we do not have control—we have chaos. For the second year in a row, a continuing resolution covering the entire government will be required. This is because not a single annual appropriation bill was enacted into law for fiscal year 1982 before October 1, 1981, and because it does not appear likely that a single appropriation bill for fiscal year 1983 will be signed into law by October 1, 1982. As my good friend Dave Obey has observed, we are to the point where the Congress passes a budget resolution and a continuing resolution and precious little else.

This has got to stop. The Congress must not continue to tie its hands in knots with procedural problems. The Congress must be allowed to act—and act quickly—on substantive matters. Changes in the process should be made to allow this to occur.

RECORD OF THE APPROPRIATIONS PROCESS

My record on budget control is clear as is the record of the Appropriations Committee, I have the privilege of chairing. As I indicated, in 37 of the last 39 years, the Appropriations Committee in the House has recommended funding below the Administrations' requests. Concerning fiscal year 1983, the House Appropriations Committee has once again acted responsibly. So far, of the nine appropriation bills reported from the Committee—the Committee is well within its Section 302 allocations. We have acted responsibly by first reducing the spending levels requested—and by exercising the Congressional prerogative of reordering priorities.

CONGRESS—THE PEOPLE'S BRANCH OF GOVERNMENT

Of course, the Congress is the people's branch of government. It is the branch most responsive to the immediate needs of the populace. I might add that the recommendations made by the Appropriations Committee are based on extensive hearings and review—including hearings with interested members of the populace. Markups are conducted on a line-item basis. During the 96th Congress, the Appropriations Committee, through its established subcommittee structure, had over 700 days of hearings taking testimony from 10,215 witnesses that were recorded in 225 volumes of hearings comprising more than 200,000 printed pages. In addition, the Committee conducts hundreds of special studies each year of various Federal programs and activities. For instance, during the 96th Congress, the Investigative Staff of the Committee worked on more than 140 studies concerning the operations and programs of the various departments and agencies of the government.

We have followed this same time-tested procedure again this year. Drafting appropriation bills is not an exact science, but it is based on the sound underpinnings of hearings, studies, and other review. We do the best we can to reach a concensus that is satisfactory to the majority on both sides of the aisle.

LET'S RETURN TO THE BUDGET ACT

As I indicated earlier, there is considerable strength in the Budget Act. However, what we have seen in recent years is special provisions being adopted in budget resolutions which are contrary to the spirit of the Budget Act. The most glaring of these, in my opinion, are placing reconciliation in the first budget resolution and automatically turning the targets of the first budget resolution into binding ceilings with requiring separate action on a second budget resolution.

The reconciliation process has been diverted for purposes for which it was never intended. Section 310 of the Congressional Budget Act of 1974 specifically places the order of reconciliation after the adoption of the second budget resolution and provides for completion of the process by September 25th. The Budget Committee's apparent justification for considering reconciliation in connection with the first budget resolution is based on the following two lines appearing in section 301 of the Act concerning matters which may appear in the first budget resolution:

"Any other procedure which is considered appropriate to carry out the purposes of this Act."

Thomas Jefferson stated in his opinion on the constitutionality of the national bank that:

"It is an established rule of construction, where a phrase will bear either of two meanings, to give it that which will allow some meaning to the other parts of the instrument, and not that which will render all the others useless."

I contend that these two lines of the Congressional Budget Act should not be used to circumvent the true intent of the Act which was to place the reconciliation process at the end of the budget cycle and not at the beginning as it has been done for the past two years.

I will also quote from Statute and Statutory Construction Vol. 2a:

"SEC. 45.12. REASONABLE INTERPRETATION.—It has been called a golden rule of statutory interpretation that unreasonableness of the result produced by one among alternative possible interpretations of a statute is reason for rejecting that interpretation in favor of another which would produce a reasonable result. It is said to be a 'well established principle of statutory interpretation that the law favors rational and sensible construction'."

It is neither sensible nor rational to rely on the language in section 301 of the Budget Act to propel reconciliation arbitrarily to the beginning of the process from the end. It defeats the clear intent of the Act. In my judgement, it jeopardizes the viability of the Act as a useful Congressional tool.

I respectfully suggest to the Task Force that it may wish to consider recommending deleting those two lines from the Congressional Budget Act. I believe that far less damage could occur to the Budget process if those lines were deleted.

If a significant development arose after the deletion of those lines, it would always be possible to amend the House Rules to provide whatever additional flexibility was required to meet a given situation. I believe it would be much preferable to address each such unusual situation separately through a rules change, rather than allow for the misuse and overuse of this current provision of the Budget Act.

Throughout the debate on the congressional Budget and Impoundment Control Act, Mr. Bolling, the Floor Manager, stated that the first budget resolution would "establish guidelines" and "contain spending targets" and after legislative and "spending measures have been enacted upon, it would (then) be appropriate for Congress to set firm spending levels." There is ample documentation showing that there was never any intention to place spending constraints or limits on Congress until the adoption of the second budget resolution. I fear the current reconciliation measure destroys this concept.

The premature reconciliation procedure followed in recent years also carries serious institutional implications. The appearance of the reconciliation bill in the budget resolution in 1981 almost completely stifled the legislative process. The reconciliation bill enacted last year inhibited the entire legislative process and the omnibus package that was created dramatically changed the direction of the government almost overnight. The Committees of Congress and the House itself did not have adequate opportunity to study or amend the mass of legislation passed in reconciliation. I believe the Congress performed a disservice to itself and to the country in the adoption of the reconciliation package last year.

The extraordinary reconciliation bill of 1981 was assembled by very few individuals with virtually no one understanding its overall content and with little or no public hearings or review.

The House of Representatives is the people's branch of government and the purpose of the Committee system is to conduct public hearings and review in detail legislative proposals to determine their effect. But the Omnibus Reconciliation Act of 1981 circumvented that system. The Appropriations Committee prides itself in carrying forward this very detailed review of matters under its jurisdiction and we intend to continue this method of approach. I should think all Committees of the Congress would want to continue this approach and avoid the omnibus reconciliation approach we engaged in last year.

Reconciliation sets a very dangerous precedent for the legislative committees to be required to set aside the public review process on very complex issues. The Congress rushed through a bill that affected programs for two or three years without an opportunity to understand its effects fully. In addition, the Congress, was asked, in the interest of expediency, to forfeit its responsibility of representatives of the people and approve it without amendment. How far we have come from the intent of the Budget Act! As a senior member of this House, I cannot justify or condone such a procedure that is basically contrary to the established principles of this institution.

Both the study committee and the Rules Committee, after full hearings and careful thought, recommended that the first resolution on the budget be confined to targets as opposed to firm ceilings. Those studies and the action of the Rules Committee also brought that feature of the Budget process timetable which calls for reconciliation after the regular authorization and appropriation cycle conducted within the established Committee structure and after the completion of the second concurrent resolution on the budget.

EARLIER AUTHORIZATIONS REQUIRED

The authorization problem is chronic and seems to worsen with each Congress. The provisions of the Budget Act concerning authorization requirements have been tested and they are not adequate. Legislative timeliness is essential to Congressional Budget control. If devices are not found to secure authorizations in a more timely manner the legislative budget process will become inoperative.

Several alternatives are available which would rectify the problem or at the very least, improve the situation. Let me call attention to section 402(a) of the Budget Act. It reads as follows:

"REPORTING OF AUTHORIZING LEGISLATION

"SEC. 402. (a) REQUIRED REPORTING DATE.—Except as otherwise provided in this section, it shall not be in order in either the House of Representatives or the Senate to consider any bill or resolution which, directly or indirectly, authorized the enactment of new budget authority for a fiscal year unless that bill or resolution is reported in the House or the Senate, as the case may be, on or before May 15 preceding the beginning of such fiscal year."

Four specific proposals could be considered in addressing this problem. I have made these recommendations to the Rules Committee before, most recently last November.

First, section 402 could be replaced with language embracing the original recommendation of the Joint Study Committee on Budget Control to which I referred earlier. The proposal was that authorizations take effect no earlier than the fiscal year after the fiscal year in which they are enacted. Under that proposal, authorizations for the applicable fiscal year would be enacted before the President's budget is submitted. This approach was recommended by the Joint Committee after very careful study. From the standpoint of the Congress, we accomplished two very valuable objectives. It would solve the problem of late authorizations and allow the Congress to consider the appropriation bills based on enacted legislation. It would also afford the Executive Branch an opportunity to cast an annual budget in accordance with congressional intention as reflected in the authorizing bills. If the Congress is serious about taking the lead in setting national priorities, it would seem this approach would be most effective. Enactment of authorization prior to submission of the budget would exert maximum Congressional impact on the budget, permit timely consideration of appropriation bills, and would reduce the extensive use of continuing resolutions which further tend to diminish the influence of Congress on national policy.

Second, is a proposal where multi-year authorizations could be required with the provision that such authorizations be renewed one year before the expiration date. There are a number of programs, especially some in the education field, which traditionally have been authorized on a multi-year basis. Many people who have studied the authorization problem believe the best answer is in multi-year legislation.

Third, and again referring to section 402(a) of the Budget Act, the requirement for reporting authorizing legislation by May 15 could be altered to require the enactment of such legislation by May 15. This would leave to the authorizing Committees of the House and the Senate the responsibility for planning and executing schedules for reporting bills, securing Floor time, and scheduling conferences so that the May 15th date might be achieved.

A fourth alternative, but in my view not fully satisfactory, would be to adopt the March 15 reporting date for authorizing legislation, as recommended by the Rules Committee originally and agreed to by the House in its version of the Budget Act. At a minimum, this would spread the legislative burden more evenly during the year and better utilize scarce Floor time.

The first two alternatives are the most desirable and would tend to bring some order to overall legislative budget control.

Whatever solution may be agreed upon should also include a revision of the House rules—perhaps to clause 2 of Rule XXI—to disallow points of order against funds in appropriation bills considered after June 1 if renewed authorization is not enacted by that date. In other words, points of order would not lie against items in appropriation bills considered after June 1 because authorizations were not enacted. This waiver could be written so that it would not apply to new programs.

TURNING TARGETS INTO CEILINGS AUTOMATICALLY

As I mentioned earlier, one of the most disturbing actions taken recently in connection with the budget process is the provision in the 1983 budget resolution to convert automatically the targets of the first resolution into binding ceilings by the first of October if Congress has not taken specific separate action to pass a second budget resolution by that date. This turns the entire process on its head, in my opinion. The drafters of the Congressional Budget Act were very careful to stress the need for targets in the first budget resolution. If we reexamine how the figures in the first resolution are established, I think it would be clear to all that to convert such targets automatically into ceilings without further Congressional action is a grave mistake.

The Budget Act requires that the Committees of Congress provide estimates to the Budget Committee by March 15th of every year. These estimates are then the guidance which the Budget Committee uses to draft the target figures in the first budget resolution. In order to provide material to the Budget Committee by the 15th of March, most Committees of the Congress have made their decisions concerning what guidance they will follow by mid to late February. Historically, the President's budget is received by the Congress in late January. This means that the Congressional committees have had at times only two or three weeks to analyze the myriad proposals made in every President's budget and provide a synopsis of that analysis to the Budget Committee by March 15th. In general, it has not been possible to hold any hearings. There has not been sufficient time to request specific studies. There rarely has even been time to read the mass of information which accompanies the President's budget.

In the case of the Appropriations Committee, generally the only significant hearing which the Committee has held by the time the March 15th information has prepared is the overview hearing. The detailed work of the Committee—which is done by its 13 subcommittees—has only gotten underway by the time the March 15th report is prepared. It is not possible to use the information generated during the normal hearing process in the development of the March 15th report.

Be that as it may, by turning the targets of the first budget resolution into binding ceilings automatically, what the Congress is doing is using incompletely developed information and casting it into stone in the nature of automatic binding ceilings. This ignores the hundreds of Committee hearings—the thousands of witnesses—the hours and days of Committee hearings during which detailed information is developed. The clear intention of the Budget Act was that the figures in the first budget resolution would be targets only. It was only after Congressional committees has performed a detailed analysis and made specific recommendations for authorizations and appropriations, that the Congress would establish binding ceilings.

The provision in the 1983 budget resolution which allows the targets to become binding ceilings automatically is clearly contrary to the Budget Act. It amounts to a major revision of the Budget Act by the passage of the budget resolution. This is the type of situation I referred to at the start of my statement when I said we have been amending the Budget Act through the adoption of various budget resolutions. The Congress cannot continue to act in this manner.

Another detrimental effect of the provision turning first resolution targets into binding ceilings automatically is that it focuses undue concern on the targets in the first resolution. If the membership believes that the targets of the first resolution will become binding ceilings not to be changed until a possible amended budget resolution has passed late in a fiscal year, the Congress probably will devote even more time to the development of the targets in the first resolution. I think we have seen this process developing and the 1983 budget resolution certainly bore it out. More time was spent in the development and adoption of a budget resolution than at any other time I can remember. This also contributes to the lateness of passage of the first budget resolution which is a major problem in itself.

TIMELINESS OF BUDGET RESOLUTIONS

This year, the conference agreement on the first budget resolution was not adopted until June 22nd. That is more one month past the statutory deadline of May 15th for adoption of the first budget resolution. This lost month is the major reason why appropriation bills have not been passed in a timely manner. It is the major reason why a continuing resolution covering the entire Federal government is required this year. Last year, although the first budget resolution was adopted by May 21st, appropriation bills were not scheduled for Floor action until House passage of the Omnibus Reconciliation Act. This did not occur until June 26 and had the effect of again requiring the entire Federal government to be funded on October 1 through a continuing resolution. Two years ago, the first budget resolution again was not adopted until June 12—four weeks past the statutory deadline. In spite of this, the Congress was able to enact eight of the thirteen appropriation bills by the start of the fiscal year.

As I stated earlier, I believe the Budget Act will work if we would only follow it more closely. It is a tight schedule, but if sufficient floor time can be obtained, there is adequate time from May 15th until October 1 to enact all appropriation bills. In 1976 and in 1978, although continuing resolutions were required for certain unauthorized programs, every appropriation bill was enacted into law by October 1st. We can return to that type of schedule if we return to the strength of the Budget Act.

In this regard, I recommend a legislative change to the Budget Act which the Task Force may wish to consider. This change would provide a release date so that if the first budget resolution is not adopted by a certain date, appropriation bills could be considered by the House anyway. The date I would recommend is June 1st. This allows a two-week grace period past the statutory deadline. There must be discipline if there is to be an adequate Congressional budget control process. I believe this release date could provide the additional discipline required to ensure the Congress adopts budget resolutions in a timely manner.

RECESS SCHEDULING

Another problem which the Congress has experienced in recent years which—combined with the late passage of budget resolutions—has impaired the institution's ability to accomplish its work, is the scheduling of recesses. I realize that this issue is beyond the purview of the Budget Task Force, but I think the point needs to be made. I would urge the leadership of both the House and the Senate to try, to the maximum extent possible, to schedule district work periods for both bodies at the same time. I realize that due to the different natures of the two bodies, this may not always be possible. But I think to the extent it can be done, this will help in planning and in the passage of necessary legislation.

EMPHASIS IN THE BUDGET PROCESS

I do not believe it was the intent of the authors of the Budget Act, but it has become the practice of the Congress to devote much more time and emphasis on the spending side of the budget than on the revenue side. In addition, on the spending side, the emphasis has further been placed on that going through the appropriations process—and even more specifically, on the discretionary items in the appropriations process.

I know that Mr. Obey, in his testimony before the Task Force last week, recommended a major change which would result in the consideration of major authorizations, appropriations, entitlements, revenue measures, and budget resolutions all in one package. While this is an intriguing concept, I am afraid that procedurally it may not be feasible. However, additional Congressional scrutiny must be given to be certain of these areas. Focusing too much attention on discretionary spending in appropriation measures to the neglect of certain other aspects of the budget process is not sound policy. If the Congress is ever going to exercise adequate control over the spending side of the budget, it is going to have to do better with the entitlement issue.

Ability to control spending is hampered by the fact that about 77 percent of the spending in the three-quarter trillion dollar budget is relatively uncontrollable without changes in existing law. In 1973 the figure was 70 percent; in 1967 it was 59 percent. This is an incredibly high figure now and is accounted for in large part by the various entitlement programs which have been created in the past and the disproportionate growth of these programs compared with the rest of the budget. Involving primarily payments for individuals, entitlement programs have escalated in the past decade to the point where last year they constituted more than 60 percent of the uncontrollable outlays and 46 percent of the total gross budget outlays.

One serious aspect which must be reviewed in connection with entitlements and controllability involves escalator or price increase provisions. In recent years, the enactment of legislative provisions providing for benefits under entitlement programs to increase automatically as various inflation indices increase has had an enormous adverse impact on the ability of the Congress and the Executive Branch to control the budget. With the exception of certain Federal pay, all such adjustments become effective without the requirement of any current action by the Congress.

All major entitlement programs involving payments for individuals are now affected by price indices. About 57 percent of the budget authority last year involved programs which are adjusted directly or indirectly by the pricing indices. Such programs include food stamps, school lunch, veterans and survivors pensions, civil service retirement, railroad retirement, social security, supplemental security income, black lung benefits, older Americans and child nutrition.

The impact of escalator clause adjustments in any one fiscal year differs by program because of variances in effective dates and escalation percentages. However, a study prepared for the Appropriations Committee, at my request, found that, if it is assumed, that a seven percent adjustment was in effect for all the subject programs uniformly over a 12 month period, the increased cost would be in excess of $20 billion. In other words, through these escalator clauses, additional inflation is added to match inflation through devices of which Congress exercises no annual review and control. It should be obvious to everyone concerned that we cannot hope to beat inflation simply by keeping up with it by increasing expenditures. We do not control inflation by simply adding to it.

In this regard, I think it is constructive to look at the composition of Federal spending in recent years. In 1970, defense constituted 40 percent of spending in the unified budget. Payments to individuals accounted for 32 percent and discretionary non-defense programs totaled 13 percent. By 1980, defense was 24 percent, while payments for individuals increased to 47 percent, and non-defense discretionary programs had shrunk to 10 percent. it is estimated that in 1985, payments for individuals will have increased to 50 percent of the unified budget. Defense, as part of the large Reagan Administration build-up, will increase to 32 percent. These two large increases will squeeze non-defense discretionary programs to only 3 percent of Federal spending. Any Congressional budget process which devotes an inordinate amount of time and effort to controlling a relatively insignificant amount of total Federal spending is not worthy of the name.

Another example of the growth of entitlement programs is the fact that in 1983, it is estimated that 50.4 percent of gross outlays, will result from actions taken by the Appropriations Committee. Forty-nine point 6 percent will be derived from actions of authorization committees, principally Ways and Menas. I should mention that included in the 50.4 percent for the Appropriations Committee is more than 9 percent in appropriated entitlements. Thus, I believe you can see how the discretionary portion of the budget is being further squeezed. It is interesting to compare these figures with comparable data from 1970. In 1970, fully two-thirds of gross outlays derived from actions of the Appropriations Committee. Only one-third was derived from actions of the authorizing committees.

The Congress will never achieve adequate and equitable control over the budget if massive spending features in large segments of the budget are neglected. All Federal programs must compete on the same basis whereby choices can be made and priorities determined on the whole budget and not just on a smaller and smaller number of controllable items. Efforts directed at improved Congressional control cannot be isolated to that shrinking portion of the budget classified as controllable.

From the standpoint of those concerned about the effectivenss of the Federal budget mechanics, perhaps the most important objective of the Congressional Budget Act was to eliminate fragmentation in the Congressional Budget decision making process. Noting the proliferation of back door spending devices—contract authority, borrowing authority, and entitlement provisions—the authors of the Act included in Title IV certain reforms designed to reduce fragmentation. While these procedures have been helpful, the fact remains that those programs not subject to annual review in the regular appropriations process tend to remain virtually uncontrollable and continue to grow at a much faster rate than those programs which the Congress controls in appropriation bills.

As important as the Congress is in the effort to control spending, it cannot manage and administer the programs of the government. Indeed, it should not try. It is the executive branch, the Administration, that must run the government. It is only here that waste and inefficiency can be eliminated. Congress must give the Administration the proper tools and set the policy. But the real job of the efficient management must be done by the executive branch itself.

In this regard, I want to mention a specific action which the House Appropriations Committee has taken. At my request, the Committee's Surveys and Investigations staff prepared a major report on procurement policies in the Defense Department. That report and the accompanying hearing held on it have been released this week in a bound volume. The report points up numerous areas where the Defense Department could tighten management and save Federal dollars. This is the type of action which the Congress can and must take. However, the actual management and the actual elimination of waste and abuse can only be accomplished by the Executive Branch. It is my hope and intention that the Defense Department will read the report carefully and follow the specific recommendations it contains. As I mentioned earlier, with non-Defense controllable spending shrinking to three percent of the unified budget by 1985, we must not allow the Defense Department to squander precious Federal resources.

I am hopeful that the Congress can begin to limit the various entitlement programs. Perhaps the incremental impact of sunset legislation will be helpful in getting a handle on this. We should consider making all new entitlements subject to the annual review of the appropriations process. Further, I am convinced the Congress must gain control of those programs which contain uncontrollable provisions which themselves add to inflation. None of these efforts will be easy. But the goal of a stable, inflation-free economy makes them not only worthwhile but necessary if we are to prevent a breakdown in our financial system which appears possible if present policies continue.

DEFERRED ENROLLMENT

Another provision which has been adopted in recent budget resolutions and which has no sound basis in the Budget Act itself, is that dealing with deferred enrollments.

The deferred enrollment provision of the 1983 Budget Resolution states that no bill or resolution providing new budget authority or new spending authority which exceeds the Subcommittee discretionary allocation under section 302(b) of the Budget Act can be enrolled and sent to the President for signature. This provision ignores the fact that a Committee of the House—although acting responsibly and staying in its total Committee allocation—might be prohibited from having the bill signed into law if it exceeds a subcommittee target allocation. This phenomenon would prohibit the Congress—through its Subcommittee structure—from reordering national needs based on detailed hearings and deliberations under the usual authorization and appropriations process. For example, if a Committee were to shift funds into one Subcommittee's area while reducing expenditures elsewhere, although staying within its total allocation, the one bill would be deferred.

The Congress, through its established Committee and Subcommittee structure, should be able to operate freely under the first budget resolution targets and make priority changes if so determined based on hearings and other actions of the various committees of the House and Senate. The provision has the effect of making targets established in the first budget resolution binding by imposing an unnecessary burden and hinders the Committees.

The ludicrous and ineffective nature of this provision can best be demonstrated by actions which occurred in fiscal year 1982. The budget resolution for 1982 contained a deferred enrollment provision. But the deferred enrollment provision affects only discretionary budget authority. It does not affect entitlement spending. It merely places another unnecessary obstacle in the way of orderly consideration of discretionary spending measures. An individual bill should not be stopped dead in the legislative process, if the Committee of jurisdiction has acted responsibly and is within its total target allocation. At one point during fiscal year 1982, the budget outlay ceiling had been exceeded by more than $42 billion. At the same time the Appropriations Committee was under its section 302 budget authority allocation by more than $20 billion. Of course, there were problems moving appropriation bills due to section 311 of the Budget Act. But in addition, despite that, if the Committee had tried to move an appropriation measure which exceeded a subcommittee discretionary budget authority allocation, that bill would have been held at the desk even though the Committee in total was more than $20 billion below its section 302 amount.

I think this, perhaps better than anything else, illustrates how far we have come from the original intent of the Budget Act. We are tying ourselves in knots. We are not controlling the budget process—we have allowed the process to control our actions. This example also indicates the over-zealous approach that some have advocated to control discretionary spending through the appropriations process. If more attention were paid to controlling entitlement programs and less to additional controls over discretionary spending through the appropriations process, overall Congressional budget control would be in much better condition.

FEDERAL CREDIT PROGRAMS

For several years, the Appropriations Committee has called attention to the increasingly important part lending and guarantee programs are assuming in Federal resource allocation. We have been alarmed by the proliferation of loan guarantee and program guarantee activities, which, while they do not provide new budget authority in the technical sense of the term, do pledge full faith and credit in the United States government and thus establish a continuing liability on the taxpayer virtually beyond the subsequent control of Congress. The budget for fiscal year 1983 showed that direct loans and loan guarantees by Federal agencies and government sponsored enterprises were estimated to be $160 billion. And total Federal loans and guaranteed loans outstanding are estimated to be $613 billion at the end of 1983—compared to $381 billion outstanding at the end of 1977.

The Sppropriations Committee holds the view that in order for the government to foster efficiency in the allocation of economic resources, in financial markets, and in the economy as a whole, it must exercise better and more systematic control of both guaranteed loans and direct loans—and over the ways in which credit activities are financed. One of the problems which has led to financial disaster in other countries is the overextension of credit. This is a matter which demands the careful attention of the Congress. Bringing all credit programs into the budget process will help coordinate credit policy with fiscal policy, and help synchronize the allocative aspects of Federal activity was budget allocations.

It is noted that the 1983 budget resolution for the first time included allocations of Federal credit activity levels together with a control mechanism, after passage of a second budget resolution, similar to that on budget authority and outlays. The Committee has done the best it could, under the circumstances, to implement the new credit procedure. The Committee has generally supported control of credit programs since they are an integral part of the Federal resource allocation, as I indicated. However, the Committee has not consulted about the mechanics or the timing of the new procedure until after the budget resolution was adopted, notwithstanding the fact that most of the Federal credit activity in the budget resolution is presently allocated to the Committee on Appropriations.

LEGISLATIVE HISTORY OF THE BUDGET ACT

I heartily commend the hearings which your Committee is conducting on the issue of budget reform. We must constantly renew ourselves, but we should not forget our past. Much wisdom lies in the words of Mr. Bolling in the statement he delivered on December 4, 1973, when managing the Budget Control Bill on the House floor. If the Congress had remained truer to the fundamental guidelines which he proposed on that day, we would have had far fewer problems in budget control during the past eight years. Mr. Bolling's words deserve repetition:

"First, has been the commitment to find a workable process. Not everything that carries the label of a legislative budget can be made to work. The complicated Floor procedures contained in the joint study committee bill have been eliminated because they would have inhibited the proper functioning of Congress.

"Second, budget reform must not become an instrument for preventing Congress from expressing its will on spending policy. The original bill would have ruled out many Floor amendments, it would have stunted the free consideration of appropriation measures, it would have given one-third of the Members the power to thwart a majority's effort to revise or waive such rules. Points of order could have been raised at many stages of the process and legitimate legislative initiatives would have been blocked.

"The objective of budget reform should be to make Congress informed about and responsible for its budget actions, not to take away its power to act.

"Third, budget reform must not be used concentrate the spending power in a few hands. All Members must have ample opportunity to express their views and vote on budget matters. While it is necessary to establish new budget committees, they must not be given extraordinary power in the making of budget policies.

"Fourth, the Congressional budget must operate in tandem with and not override the well-established appropriations process. Through its power of appropriations, Congress is able to maintain control over spending. That power has been exercised responsibly and effectively over the years and it should not be diluted by a new layer of procedures.

"Fifth, the budget control procedures should deviate only the necessary minimum from the procedures used for preparation and consideration other legislation. Undue complexity could only mean the discrediting of any new reform drive. We must not load the Congressional budget process with needless and questionable details."

CONCLUSION

I have made reference to some of the major and most immediate problems I see with respect to the Budget Act and its impact on the legislative process. There are others which will surface and I hope there will be the opportunity to study them further. I will briefly summarize now the recommendations which I would offer to help restore integrity to the Budget Act:

First, I recommend that we return reconciliation to its sequential position in the Congressional budget process—that is, late in September, after the enactment of the second concurrent resolution on the budget as clearly called for in the law.

Second, in order to preclude the recurrence of premature reconciliation and other procedures not specifically intended by the Budget Act, I recommend that Section 301(b)(2) of the Act be repealed. Misuse of this provision has resulted in circumventing an defeating some of the original purposes of the Act. As I stated earlier, if it can be demonstrated that refinements to the Act are desirable, let them be justified after thorough discussion and hearings and specifically authorized by the Committees which have jurisdiction over the Budget Act.

Third, in order to address the chronic problem with the lack of authorization I recommend that section 402 of the Act be amended in one of the way I suggested earlier in this statement. I personally favor either a two-year authorization cycle or the requirement that authorizations be enacted at least one year before the fiscal year for which the appropriations would be made.

Fourth, the statutory dates in the Budget Act must be met. Any slippage in the adoption of the first budget resolution seriously impairs the ability of the appropriations process to enact annual appropriation bills before the start of the fiscal year. For this reason, I strongly suggest that a release date be incorporated into the Budget Act which would allow for Floor consideration of the appropriation bills after June 1st of any year if a first budget resolution has not be adopted by that date.

These are but a few of the recommendations that I believe will develop a more effective, more workable budget process. They do not require a massive overhaul of the existing system—indeed, I feel that would be a big mistake. As I have said, there is much strength within the Budget Act as it is now written. What we need to do is return to the provisions of the Act and provide some fine tuning to eliminate some of the problems we have discovered.

It has been my experience that fiscal decisions are a matter of will as much as procedure. Adequate procedures are necessary but it seems that today restraint and fiscal discipline are no longer self-evident virtues. It seems that we as a society tend to want more spending for almost every conceivable purpose, but we do not have the conviction and hence the willingness to raise the revenues to pay these bills. The heavy Federal borrowing which has resulted has contributed significantly to persistent inflation, dangerous and humiliating devaluation of the dollar, and ominous and chronic trade deficits.

In the perspective of the fiscal history of the Federal government, the Budget Act has had a very brief and frail history. In my judgment, it would represent a great disservice to this institution and to the nation if this otherwise sound device for fiscal control were allowed to flounder and flail through abuse.

In closing, may I say how much I have enjoyed working with your Committee and with Members of the Budget Committee. Our close cooperation and working relationships have significantly aided our respective Committees and our colleagues in responsibly dealing with these very complex, budgetary matters.

If we can solve the problem of failing to enact authorizing legislation in a timely fashion, can bring entitlement programs into the annual appropriations process, improve the macro-economic focus of the budget, put greater emphasis on the revenue side of the process, review Federal credit programs more carefully, and avoid delay in enacting appropriation bills, we will have a more effective and more workable budget process.

I am very grateful for the opportunity to appear here today to discuss ways of improving congressional budget control. This is a most important issue—our economy, our credibility as an institution all hang in the balance.

TABLE 1.—HOUSE CONSIDERATION OF REGULAR APPROPRIATION BILLS

Fiscal year	Number reported in House by:			Number passed House by:		
	July 1	Sept. 1	Oct. 1	July 1	Sept. 1	Oct. 1
1977	12	13	13	11	13	13
1978	12	12	13	12	12	13
1979	11	13	13	10	13	13
1980	11	12	13	5	9	12
1981	7	12	13	2	10	12
1982	2	9	12	0	5	10
1983	0	4		0	1	

TABLE 2.—ENACTMENT OF REGULAR APPROPRIATION BILLS

Fiscal year	Number enacted by start of fiscal year	Number not enacted for fiscal year
1977	13	0
1978	9	1
1979	5	1
1980	3	3
1981	1	5
1982	0	4

TABLE 3.—TIMING OF SECTION 302 ALLOCATIONS (APPROPRIATIONS COMMITTEE)

Fiscal year	Date first budget resolution adopted	Number of days between adoption of first budget resolutions and:	
		302(b) report of the Appropriations Committee	Reporting of first appropriation bill
1977	May 13 (1976)	11 (May 24)	26 (June 8).
1978	May 17 (1977)	16 (June 2)	16 (June 2).
1979	May 17 (1978)	14 (May 31)	15 (June 1).
1980	May 24 (1979)	14 (June 7)	14 (June 7).
1981	June 12 (1980)	14 (June 26)	1 (June 13).
1982	May 21 (1981)	21 (June 11)	35 (June 25).
1983	June 23 (1982)	29 (July 22)	48 (Aug. 10).

Mr. **Beilenson**. We thank you very much, Mr. Whitten, not only for coming here but for taking the time to produce a detailed statement which we shall read carefully. We appreciate your putting together your thoughts on this matter.

Mr. **Whitten**. May I say that the statements before you represents parts of earlier presentations I have made before the Rules Committee and other committees. But if you will read the first page and if you agree that the strained construction being given to the act through misuse of section 301(b)(2), you will agree that we are probably going to have to return to construing the act like it was intended.

Mr. **Beilenson**. Mr. Derrick.

Mr. **Derrick**. Mr. Whitten, I know that the Appropriations Committee works harder than any committee in the Congress. I don't want you to take this as a reflection of what the committee does or doesn't do, but I have heard this statement made a number of times, that if the Appropriations Committee would do what it was originally intended to do as far as giving an overview of all of the appropriations instead of just individual appropriations on the subcommittees, that we wouldn't need the Budget Act.

Mr. **Whitten**. Well, some poeple might say that, but we do have the Budget Act and I believe we will have a Budget Act for some time to come. Our committee follows the guidance in the Budget Act and will continue to do so.

I am frequently kidded by friends on the Budget Committee. I say I am the one who wants to keep them here. The pressure is on the Appropriations Committee for money. We need anything that will help protect us from that pressure so I don't object to proposals for change as long as in the final result the Congress is able to attend to its business properly and on time. This must happen if the Congress is going to regain its stature with the people.

Mr. **Derrick**. I understand that and appreciate it. My thought, though, was that maybe the Appropriations Committee could give that overall view that the Budget Committee does.

Mr. **Whitten**. May I say to you if you will check to see how many hearings the Appropriations Committee has and how many witnesses we have, you will see we get into considerable detail. The Budget Committee gets the overall view, but it is not nearly as specific. The Appropriations Committee does hold a series of general oversight hearings (as required by the Budget Act) early in the year. But most of the hearings are much more specific.

Mr. **Derrick**. I understand that time is a problem.

Mr. **Whitten**. Time is a necessity. Whatever is spelled out for us to do we will do it as long as we can move ahead.

Mr. **Derrick**. But was it not prescribed in the original jurisdiction of the Appropriations Committee that they were to give the overview? What has happened instead of having the one committee to give the overview, we get 13 separate views in these particular areas?

Mr. **Whitten**. In the first place, may I say that I don't consider myself an expert on the history of the committee. I have read it once or twice and I have been a part of the recent history of the committee. I read it the first time in 1943. I served on four subcommittees most of the time, and I have had experience with just about all of it.

Mr. DERRICK. I think you can probably say you know more than anyone else around here about it.

Mr. WHITTEN. No, I have more information, but I don't profess to know it all. I was asked when I was in line to be chairman of the committee about the subcommittees. I said the fellow that knows the most about it that is, the subcommittee chairman—has always won out, in my opinion.

There is no way in the world to hear 10,225 witnesses in a single year without dividing up into subcommittees.

May I say that I am talking about the full Committee on Appropriations. It has been within the budget 37 out of 39 years and last year the exception was due to increased military spending. After all, we are an instrument of the Congress, and anything we do we have to get the House to approve, so if the House doesn't like it, it can try to amend it.

I advocated the creation of the Budget Committee because you were going around us. When I say you, I mean the Congress, with entitlements and backdoor spending which prevented an annual appropriations review. But instead of doing that, the Congress has attempted to gain extra control on discretionary spending and the relatively uncontrollable programs have continued to grow like topsy.

So I say we must start again. Let's get the budget process to where it will work again.

Mr. DERRICK. Thank you very much.

Mr. BEILENSON. Are there any other questions of Mr. Whitten? Mr. Jones?

Mr. JONES. Thank you, Mr. Chairman.

Chairman Whitten, I agree with you that we must take a close look at the whole budget process, and try to improve it and live up to what the people expect of us when we are dealing with the budget, and I would also agree with your comment that the substitute that was passed last year substantially subverted confidence in the budget process among committee chairmen and committee members, both appropriations and the authorizing committees.

I still have trouble understanding how the budget process is being blamed for the inability of Congress to pass appropriations bills.

We have had a number of witnesses discuss this before the committee, including our colleagues in the Congress, and a range of economists, liberal, conservative, and everyone in between, and essentially they point out, as did Bob Reischauer in his testimony, that the real problem in Congress' inability to pass an appropriation bill is the economy. The fact is that it is very easy to move appropriations bills through Congress if you are adding onto the spending of last year, but if you are reducing spending from the previous year's level, it is very difficult to get a majority to pass such a bill. As Bob Reischauer said, it is an unnatural act, and I think there is a great deal of truth in that observation.

If you look at the chart before this committee, it shows that in the days when we were not cutting back, the appropriations process moved rather rapidly.

The making of the 302(b) allocations and reporting out the first appropriations bills were, generally speaking, within 2 weeks of passage of a budget resolution, so I was just curious as to exactly how the budget process has changed so that it now slows down the appropriations process but it didn't when we were adding spending, say, 3, 4, 5, 6, 7 years ago?

Mr. WHITTEN. Well, you can look at the record, and I have it here and you will see that several years ago we did pass appropriations bills in a timely manner. We did until we had to deal with the Congress failure to meet deadlines for adopting budget restructions.

I am speaking from memory but this year, for instance, as I remember the first budget resolution was not reported from the Budget Committee after the date that the overall agreement with the Senate was due. The first resolution was not finally adopted by the Congress until June 22—2 days before the start of the July 4th recess. Therefore, it is my understanding that it was not until after the July recess that the Appropriations Committee had the opportunity to allocate between the subcommittees and begin marking up bills.

May I say I differ greatly with some of the conclusions you reach, and with some of your assumptions. But be that as it may, when you take the time to get the budget resolution prepared, and the time until the overall agreement is reached, we are delayed we can't allocate and markup bills and bring them to the floor of the House.

Mr. JONES. This year was unusual. As you know, the delay in the budget process is blamed on the President's budget being simply ignored by both parties in both Houses and a mutual agreement between the President and the leadership of the Congress, where all of those negotiations occurred.

Mr. WHITTEN. That may have been a consideration but placing reconciliation in the first resolution in advance of hearings, detailed budget hearings, and in advance of other actions has certainly contributed to delays in the budget process the other, I always thought reconciling was bringing together differences after the fact—not before.

You have recommended reconciliation before the differences arise. Under present procedures we put it in concrete at the beginning and it won't work.

Mr. JONES. For example, last year the budget resolution was adopted May 21. Even though I didn't agree with what was adopted it was adopted in the same timeframe as it had been in 1977, 1978, 1979, 1980. Actually, it was before the 1980 adoption date, and in those years you were able to allocate the 302(b)'s within 2 weeks or less, but last year it was 3 weeks, and you have the first appropriations bill before the House usually within 2 weeks.

Last year it was about 5 weeks.

Mr. WHITTEN. I have a very high regard for my colleague from Oklahoma and for the hard work that all of you have done but the end result was that the Congress is bogged down in the process and we are in terrible shape with the country.

I don't say that anyone is at fault. We are going to have to go back to the first page of my prepared statement. I hope that whatever changes are recommended will permit us to see that we get the job done. The Budget Committee has had success in passing in the past resolutions as we have had with the appropriations bills. If we will return to the strength of the act it can happen again.

Collectively we have bogged down. I say again you are going to have to allow us to handle the appropriation bills in a timely manner. Keep as much of the current Budget Act as you can as long as you don't interfere with the end result. That is the necessity for us to have hearings, move ahead and get through. That is what the people expect.

Mr. JONES. I agree with you that these last minute substitutes that are oftentimes based on a great deal of fiction—well, the problem is broader than the budget process, it encompasses the entire legislative process, and I agree that we need to address that issue. As far as going ahead with the hearings and gathering your material and coordinating with the different committees, that can go ahead anyway.

You have the President's budget.

Mr. WHITTEN. Well, the President's budget, I would say this as to any President, there are a whole lot of assumptions in any President's budget out of necessity. They send a budget up here counting on changing the law and I know there have been times when they don't even get anybody to introduce the legislation.

Mr. JONES. I am an attorney, too.

Mr. WHITTEN. I am not talking specifically about this administration. I am talking about any President.

Mr. JONES. I am on the Ways and Means Committee also, and I would say one of the reasons you have hearings is to find out where you are going. If you do know where you are going you won't have to have hearings.

Mr. WHITTEN. We don't have any real argument. We know the process has bogged down.

Mr. JONES. Right.

Mr. WHITTEN. We know we have got to proceed. Now, let's start knowing we have got to proceed, then keep all of the present process that you can if it doesn't interfere with procedure.

Mr. JONES. I agree with that, and I just wanted to establish that the budget process per se wasn't the cause of Congress inability to pass appropriations bills, because, otherwise——

Mr. WHITTEN. Let me say we had little trouble meeting our responsibilities when the deadlines of the Budget Act were adhered to and we have had considerable difficulty since they haven't been, so that tells me something. I can get into details.

Mr. JONES. I think every one of the witnesses that we have had, including outside witnesses, ascribe it to the economy and the fact that it is very hard to get a majority of both Houses of Congress in this atmosphere to cut back on spending.

Mr. WHITTEN. I think many of you agree that the current situation may have failed. Anyway, the end result is poor.

Mr. JONES. I agree with that. You might address it to the administration, too.

Mr. WHITTEN. I might say we need all the help we can get.

Mr. JONES. Absolutely.

Mr. **Whitten**. The Budget Committee was set up in part to gain better congressional control on entitlements, that which was not controllable, whereas, the controllables were reasonably well handled.

Mr. **Jones**. I think that is one of the main things that we agree on and one of the things that is so important about these hearings. The Members themselves are discussing these issues.

There was a story in the Washington Post the other day that senior committee staff people were holding some sort of clandestine meetings to sort of get rid of the budget process, apparently without Members' permission, which is from my perspective not the way this institution ought to work, and I just wonder if that is your feeling.

Mr. **Whitten**. May I say I strongly advocate keeping of the Budget Committee. Somebody asked if we ought to change the law. No, I said, we ought to follow the law as it is written.

Recent budget resolutions have contained provisions which in my opinion are completely contrary to the Budget Act.

Mr. **Jones**. Don't you think the Members ought to be determining how it is changed?

Mr. **Whitten**. I say again that the Congress must let the Appropriations Committee go ahead with its hearings, go ahead with its actions in a timely fashion. We have to bring it to the House. The House can offer amendments. It can move to recommit.

Mr. **Jones**. But in making these changes, would you agree——

Mr. **Whitten**. I am not arguing about the changes, but I say the test is will it let us go ahead and regain our stature in the country and let the Congress run it. If it won't, let's pass that on the side. Let's leave that alone. If we can do what we need to do you can do anything you want.

Mr. **Jones**. But these decisions the Members ought to make in the open and not by staff in clandestine meetings.

Mr. **Beilenson**. I want to assure the gentleman from Oklahoma we are not going to invite staff to testify.

Mr. **Jones**. I don't know whether it is true or not. It was in the newspaper, and I think that these are the kind of things that ought to be aired. I assume you agree.

Mr. **Whitten**. Well, when you get into the mechanics of this we hope for something that is a whole lot better than what we now have. But when we know it has failed and the Congress has failed to act in a timely fashion, we should put that first and consider everything as to whether it will interfere with that or not. If it will we will throw it aside and deal with it when we get through. I say again we should return to targets in the first resolution and reconcile at the end of the process—not the start—when the differences have appeared.

I think we can do it, and I am one of those who believes that we need budget control. But we need control based on an act that is carefully written. We don't need a budget process based on the misuse of a phrase included for possible contingencies.

Mr. **Beilenson**. We thank you very much, Mr. Whitten, for sharing your thoughts with us and for preparing so much testimony.

Mr. **Whitten**. I hope you will realize that this is not offhand. This has been carefully thought out through the period we have been having difficulties with the budget process. It represents a firm belief. Thank you very much, Mr. Chairman.

Mr. BEILENSON. We are pleased to have with us the gentleman from Texas, Mr. Brooks, and the gentleman from New York, Mr. Horton. We will be glad to hear from you both now if you would care to come up together, gentlemen.

Just let me advise the members of the task force that these will be the last two witnesses today. The Rules Committee has to come back at 2 o'clock on the nuclear waste bill, the others who were scheduled to testify will be invited back, probably sometime during our special session in December.

Gentlemen, we are pleased to have you with us. Please proceed in any manner you would like.

STATEMENT OF HON. JACK BROOKS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. BROOKS. Mr. Chairman, thank you very much. I am pleased to appear today before the task force reviewing the goals and operation of the congressional budget process. It is timely to examine that process.

In the past two sessions of Congress the budget process has undergone an unprecedented trial by fire. The Reagan administration's efforts to bring about fundamental changes in the role of the Federal Government has given the budget process its most severe test

In addition, the interplay of significantly worsening economic conditions, mounting Federal deficits and a huge tax cut followed by a huge tax increase has called into question the ability of the budget process to function effectively in times of stress.

I have observed the progress of the congressional budget process since passage of the Congressional Budget and Impoundment Control Act in 1974. That act was the result of a lengthy, indepth study by the Congress of the entire budget process.

It incorporated the best thinking of the day as to how Congress could assume its rightful role as a major participant the Federal budget process.

In my opinion, Congress was making slow but steady progress in integrating the requirements of this act into its procedures and in carrying out its responsibilities under the act.

But I think this progress was thrown off course, and the credibility and workability of the entire process was thrown into doubt, by the budget actions taken in early 1981.

Budget actions in the first session of the 97th Congress were notable for a number of radical elements inserted into the budget process for the first time: The inclusion of reconciliation requirements in the first budget resolution, the mandating of multiyear budget levels, and the wide scale, permanent changes in program authority, bypassing the congressional committee structure.

We now need to ask ourselves whether use of the budget process to effect changes of this magnitude was intended when the Budget Act was passed in 1974.

If it was, we should acknowledge that fact by explicitly giving the Budget Committee authority to take those actions rather than having them put into effect through loopholes and backdoor means.

If this sweeping power was not intended, however, we should remove the loopholes and tighten up the statute to return it to what I think was its legitimate purpose of guiding the Congress through the budget formulation process.

First, we probably should repeal provisions like section 301(B)(2) which says the first concurrent resolution on the budget may require "any other procedure which is considered appropriate to carry out the purposes of this act."

While that provision was intended to provide some flexibility to the budget process, some people find irresistible the temptation to achieve all kinds of mischievous ends.

Second, experience has indicated that some changes are needed in the timing of Congress activities relating to the formulation and enactment of the budget.

If the committees of the Congress are to submit informed and useful information for inclusion in the budget process, and if Congress as a whole is to complete its budget formulating activities in a way that interacts effectively with its authorization and appropriation activities, it seems clear that we must move forward the dates for completion of specified action on the current budget act.

For instance, the committees might be required to submit their budget views on activities within their jurisdiction earlier than the current date of March 15.

The first budget resolution could probably be moved forward to enable more orderly and efficient consideration of authorization and appropriation bills.

Since we act on every major program on the House floor about four times each year, we simply don't have time to get it all done.

That is the truth. We don't have time to get it all done.

The committee may want to consider changes of a more far-reaching nature, such as a 2-year budget, authorization and appropriation cycle in place of the current 1-year cycle.

Such a change would contribute immeasurably to longer range planning and control of the budget process. Such a change should be accompanied by a provision allowing a midcourse correction of such 2-year cycles if the economic assumptions on which the action is based prove to be incorrect.

Finally, our experience with the budget process has shown the crucial importance of accurate and reasoned economic assumptions in formulating the budget.

We all know that projections as to the future rate of inflation, interest and employment rates, as well as fluctuations in the gross national product, have an impact on all the budget decisions we make.

If the process of creating a budget is to be rational and credible, it is imperative that Congress in the consideration of budget resolutions base that consideration on an accurate set of economic assumptions.

Last year, we made a start in the right direction by informally agreeing with the administration as to the assumptions that would underlie our budget discussions. I hope this practice continues.

As chairman of the Government Operations Committee, with jurisdiction over the Budget and Accounting Act of 1921, I would certainly be willing to consider legislation creating some mechanism under which the President would be required to coordinate the economic assumptions used in preparing his budget with those used by Congress.

Mr. Chairman, I support Congress effort to establish and comply with an orderly budget process. However, from time to time, we must examine that process closely to insure that it fulfills its original purpose and that it works effectively and efficiently.

I want to congratulate the Rules Committee, you particularly, Mr. Beilenson, as acting chairman, and the ranking members of both parties, for taking on this task. And I will be more than glad to lend the support of the Government Operations Committee in this effort. Thank you.

Mr. **Beilenson**. We thank you for coming up and sharing your views with us and taking time to prepare and to present a very useful statement.

A lot of things you suggest have been suggested by other folks too, I think you will be happy to know.

I think the only thing you have suggested that a good number of other prior witnesses have not, has to do with the first budget resolution. A lot of people, I suppose accept the fact that this is the direction we have been moving for the last year or two, argue that we should have only one budget resolution and make that one binding.

So at least with respect to the few members we have heard from in the last couple of weeks you are at this moment in the minority but with respect to everything else you suggest, I think others have echoed your views and you have echoed theirs.

Mr. **Brooks**. Thank you very much.

Mr. **Beilenson**. Thank you very much for taking the time to come here today to present your views to us.

Mr. Horton?

STATEMENT OF HON. FRANK HORTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. **Horton**. Thank you, Mr. Chairman.

I have a prepared statement which, if you will, I would like to submit for the record.

Mr. **Beilenson**. Without objection, it will be put in the record in its entirety.

Mr. **Horton**. I will briefly summarize it. In general I feel we should retain the budget process. The budget process is, I think, very important, particularly in our relationship with the executive branch. It is the only way the Congress has to look at the overall financial picutre for any given year. As one of the original cosponsors of the Budget Act, I certainly feel that we ought to continue it.

There are, however, some problems with the process.

The overall problem is that the budget exercise, reconciliation does take up so much time that it does create a problem with regard to the rest of the legislative year.

Some of the suggestions I have to resolve this and other problems have been referred to earlier. One of them is to arbitrarily move up the date of the first resolution.

Mr. Gross, who is a past director of the Budget Committee, suggested April 1 for the first budget resolution. Whether or not that is a good date, I don't know, but the idea of moving the date up might be helpful.

Moving those dates up should also refer to the reconciliation date.

One of the other areas that I think we should be most concerned about is the development of budget estimates. At the present time we have all sorts of estimates. I worked with a group that was trying to put together a budget proposal this year which could perhaps get through the Congress. We ended up with figures that were, I think, something around $99.6 billion, and before we got out of the room it was over $100 billion, and then by the time we got to the floor it was $110 billion, and to this very day I don't know which budget figures were the reliable ones.

Some way should be developed—and Chairman Jones has suggested some possibilities—to get one common set of figures and keep those updated.

Another concern I have is about savings. How they could be shown in the budget? We do have savings.

The Inspectors General and other cost-saving procedures that we have do show some reductions as a result of efforts to eliminate waste, fraud, and abuse. Some way or another ought to be developed to specifically show those savings.

Generally those are the comments I have with regard to improving the budget process. Overall, I think we have got to keep it. We have got some problems. I think we ought to try to work those out so that Congress can consider budget items more quickly.

[Mr. Horton's prepared statement follows:]

Prepared Statement of Hon. Frank Horton, a Representative in Congress From the State of New York

Mr. Chairman, members of the committee, I very much appreciate the invitation to appear before you today on the subject of improving the congressional budget process.

As an original cosponsor of the Budget Act of 1974, I have been very interested that the new process mandated in the act be successful. As a result of that act, Congress is now in a much stronger position vis-a-vis the executive branch with respect to budget matters than it was before 1974. This, however, is not to say that the process is working as well as it might. All of us have had experiences in the last year or two that suggest certain changes that might be appropriate. I will now return to some observations I have about how the process might be improved.

Probably one of the most universally felt problems is that the budget process appears to be consuming more and more of our time. The first resolution takes up more than a third of a typical congressional year. In addition to this, time and effort must be spent on the second resolution. As a result depending on the particular situation, up to half of the congressional year can be dominated by the budget process. In the early part of the year, this is a particularly serious problem. Since authorizing and appropriating committees are restrained from proceeding with legislation until the resolution is adopted, valuable time can be lost and the traditional process of authorizing and appropriations activity delayed. This delay in the early part of the year is a contributing factor to our need to pass stopgap measures and continuing appropriations at the end of the year.

The fact that the House schedule is dominated by the budget process may not be so much a fault of the process as it is simply a reflection of the fact that the size of the Federal budget has been one of the central political issues of the last few years. If we're successful in regenerating sustained economic growth in our country, preoccupation with the budget may diminish somewhat.

However, for the immediate future, we're faced with the problem of how to prevent the consideration of producing a budget from overshadowing other policy concerns of the Congress.

A proposal to deal with this problem has been made that I think warrants consideration. Mr. George Gross, who was past executive director of the Budget Committee (1975-1978) has recommended (in testimony before the Senate Budget Committee, September 16, 1982) that the Congress consider adopting the first budget resolution (with reconciliation instructions) by a date earlier than the current date of May 15th. He suggests April 1st. This would give the Members of Congress early knowledge of overall budget targets and an extra one-and-one-half months in which to legislate and develop consensus for the actions needed to comply with the targets.

Whether April 1 is appropriate or not is important as the idea of trying to shorten the time the rest of the congressional committees are put on "hold" waiting for the first resolution and reconciliation instruction. Under this approach, the Budget Committee would, of course, have correspondingly less time for its deliberations. How serious a problem this would cause them is a matter that would have to be studied in detail.

Another item of concern is reconciliation. As I think we might all agree, it is the heart of the budget process. It is the only enforcement tool to ensure that the first budget resolution targets are achieved.

Committees, however, are not given much time to act on reconciliation instructions. The proposal to adopt the first resolution at a date earlier than May 15 might help alleviate this difficulty by giving the authorizing committee extra time to comply with the directions in the resolution.

Another concern about the budget process entails the development of budget estimates. Every budget rests on economic assumptions and much of the debate over the budget revolves around the adequacy of those assumptions. Obviously, the more accurately one is able to predict the future of the economy, the easier it will be to construct a meaningful and lasting budget. Because of the times in which we live and current uncertainties in the field of economics, the Congress is going to find itself constantly facing disagreements on what economic assumptions and subsequent budget estimates are appropriate. The tough political task of forging agreement on assumptions will be with the Congress for the foreseeable future.

To help make that task easier, suggestions have been made—most recently by Chairman Jones—to convene meetings of representatives of the major institutional players—House and Senate Budget Committees, the President, the Federal Reserve Board, and the CBO—to try and iron-out agreements on economic assumptions so as to focus debate on policy rather than on assumptions. I think this idea has merit though it may not be possible for this group to resolve all differences. But in making the effort, they could provide a valuable service by isolating and clearly explaining major disagreements.

Once the assumptions are agreed to they should be regularly updated to reflect changing economic conditions. At the present time, as I understand it, economic assumptions are updated only twice a year. This is fine if the economy is not undergoing rapid change. However, when we are working under conditions of significant change, economic assumptions agreed to in January may not be appropriate in May.

A specific instance demonstrationg the importance of updating economic assumptions occurred in the Government Operations Committee in 1979 when the committee was considering a countercyclical revenue sharing program. The proposal was reported from committee in December, but in preparing cost estimates, CBO relied on July projections of the business cycle. More current projections of economic activity by such private forecasters such as Wharton, Data Resource Inc., and Chase Econometrics were available based on November data of that year, but CBO, did not use those in developing an official cost estimate. Consequently, the CBO cost estimate was based on obsolete information. The committee's own estimate based on more recent projections of economic activity contained information leading to very different conclusions as to how much the program might cost. To remedy problems such as these I would suggest that consideration be given to requiring that budget assumption be updated quarterly rather than semiannually.

Another concern I have about the budget process is how savings attributed to improved management are carried in the budget.

The budget most recently considered by the Congress contained under allowances function (Functional Code 920) an aggregate $1 billion budget reduction to be achieved through programs designed to eliminate program waste, fraud, and abuse—presumably through the work of the various agency and department Inspectors General and the President's Council on Integrity and Efficiency.

With the total budget at some $758 billion, this $1 billion savings seems reasonable. However, what concerns me is that this "off-the-top" method of reducing budget outlays through the reduction of wasteful spending does not work unless specific instructions are given to agencies to reduce or spend below their appropriated authority. This could be done by requiring the administration to, at some point during fiscal year 1983, present a rescission bill that would specify where these cuts will occur and just how appropriations authority will be reduced to implement the $1 billon budget reduction attributable to improved program administration.

Absent such recissions, savings made by the Inspectors General will simply find their way into expenditure streams elsewhere in the Agency and will not result in actual reductions in spending.

The final item of concern is the issue of including Federal credit activities in the budget process. I think we're all well aware of the problems. In recent years, Federal credit activities have grown rapidly. According to CBO, annual net direct lending rose from $4.1 billion in 1974 to $26.1 billion in 1981, an increase of over 500 percent. CBO analysis also points out that most of the growth in direct loans occurred in lending by off-budget agencies, where activities are excluded from the unified budget totals and consequently from the budget process.

I am a cosponsor of a bill—H.R. 2372—to remedy this problem. Introduced by Congressmen Bethune and Mineta, the bill would require that budget resolution, committee reporting requirements, and point-of-order language apply to credit programs. That bill has been referred to both the Rules Committee and the Committee on Government Operations.

I know that a lot has already been accomplished through adjustments within the congressional budget process to implement a Federal credit budget as part of the budget process. A major question is whether an actual statutory change in the Budget Act is necessary to establish the procedure to properly account for these expenditures. I think I can also speak for Mr. Brooks in indicating my strong interest in the Rules Committee deliberation on this issue.

With all of this said I'd like to close in a general observation. I think it is apparent to all of us that budgeting these days is a particularly difficult undertaking. The economy and the budget are highly interdependent. When the economy undergoes unexpected changes, the budget itself will change in unpredicted ways.

I think that much of the frustration that we have all felt in trying to produce a budget and reduce deficits results from this close link between the economy and the budget. Unlike the 1960's when we were enjoying unprecedented economic expansion, the 1970's and early 1980's have presented us with a Herculean challenge when it comes to predicting the economy of the coming year. The best laid plan for a balanced budget or low deficits quickly come undone when inflation climbs unexpectedly, or key industries, such as autos, are not able to compete against foreign firms, or when random foreign and domestic events occur that cause economic disruption.

The difficulties of preparing a budget under conditions of high uncertainty are horrendous. The members and staff of the Budget Committee have an exceedingly difficult job and deserve our respect and appreciation for their efforts.

This concludes my remarks and I will be happy to try and answer any questions you might have.

Mr. Beilenson. Thank you very much Mr. Horton for your testimony.

Frankly, I think we are going to have to keep the system. The public would not let us get away with not having a system.

One thing I want to come back to which Mr. Brooks mentioned, which is of importance to me and to other members—maybe it is the No. 1 problem—is the fact that we have to vote on each major issue about four times a year. We go through the budget process casting 3 weeks worth of votes on amendments, none of which is a meaningful vote, every one of which has to be repeated later when we consider appropriation and authorization bills.

We have to vote on abortion and everything else you can think of time after time after time. Maybe it is four times, but certainly at least three times.

I think we have got to figure out some way at the very least of doing away with meaningless votes, so that every time we do something that's it, it is binding and it is meaningful. When we continually have to vote on controversial measures, and some of those votes are symbolic only, I don't blame anybody, frankly, for not voting responsibly on some of these things, the pressures are so enormous now.

The single interests out there, every one of which watches each of these votes so carefully, are so numerous that even if you try to be responsible and you have the safest district in the world it becomes impossible to do the things you ought to do. For those of us who don't have a safe district, it is impossible.

There is no way we can govern in a pluralistic society if we are forced time after time to go through these votes.

Mr. **Brooks**. It is nice to vote on aborton and busing once a week.

Mr. **Beilenson**. It keeps you in practice. It gives you a chance to vote on both sides of the issue.

Mr. **Horton**. I wouldn't mind the voting if they didn't talk so much about it. The problem is they talk so much. They go 2 or 3 days talking about each one of them.

Mr. **Beilenson**. I prefer that they talk a lot so we can stay in our offices and get our work done.

Mr. **Horton**. That is what holds up the process, the talking.

Mr. **Brooks**. Thank you very much.

Mr. **Beilenson**. We really appreciate you both coming by. Thank you very, very much.

We are adjourned until next Wednesday.

[Additional statements submitted as part of the record of today's hearing, as though read, follow:]

STATEMENT OF HON. E DE LA GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. **de la Garza**. Mr. Chairman, I am very pleased to have an opportunity to share with you and members of the committee thoughts I have on the Congressional Budget Act of 1974.

As a matter of historical perspective, I am happy to say that I had some role in the development of the Budget Act. While I have no regrets in this regard, it is probably safe to say that few of us, in the light of experience of recent years, are entirely satisfied with the act. I do believe, however, that it has put much-needed discipline into the budget process and has, on balance, been a positive step. That is not to say, though, that it cannot be improved.

I would like to identify, for your consideration, certain aspects of the Budget Act that have presented problems for our committee. Most of them relate to time constraints and deadlines.

The Agriculture Committee, as you are doubtless aware, has jurisdiction over a broad spectrum of programs. They range over numerous budget functions and involve both authorizing and entitlement legislation, as well as off-budget programs for guaranteed and insured loans. These varied types of programs are frequently addressed within a single bill.

Within a given year, we are first confronted with the March 15 deadline for providing the so-called views and estimates report to the Budget Committee. It must be acknowledged that the March 15 deadline has some positive results. For example, it compels the committee, early in the session, to evaluate its legislative priorities for the year. However, in years in which a new Congress convenes, this date follows very closely on the heels of the organization of the committee. And, in years in which a new administration is coming into office, there is, as a practical matter, no likelihood of obtaining the President's proposed budget for consideration in preparing a report to be submitted by that date.

Further, the realities of the agricultural sector present peculiar difficulties to the committee, not only in connection with the March 15 deadline, but in connection with other Budget Act requirements which I will touch upon later. It is extremely difficult, as of March 15, to make useful estimates of what the needs of the agricultural economy may be for the year because of variables that simply do not lend themselves to accurate prediction. They include natural phenomena such as weather and natural disaster, as well as foreign production, and economic conditions in this Nation and abroad. Therefore, the recommendations required to be made by March 15 may have little relationship to the situation which must be addressed by Congress as developments unfold.

Since it is obviously very difficult to project outlays with any degree of accuracy in light of the fluctuating circumstances that apply to these programs, the committee fears the political consequences to agricutural programs of substantial increases, over projected levels, after the first and second budget resolutions have been reported and passed. Those resolutions encompass an outlay figure for the agriculture function that could be surpassed as early as mid-fiscal year. Such an outlay figure would serve as a cap on the agricultural budget and be used to defeat proposals for urgently needed program change.

Similar problems have arisen in connection with the May 15 deadline for legislative reports on authorizing legislation. This deadline places a tremendous burden on the legislative committees, a burden compounded, as I have suggested earlier, in those years in which there is a new Congress, a new administration, or both.

Because of the relationship of the May 15 deadline to subsequent actions required by the Budget Act, it may not be feasible to relieve this problem by postponing the deadline to a later date. I would suggest, however, that it would be feasible to exempt from the May 15 deadline authorization bills that involve small outlays and have no significant impact on a budget resolution. For example, within the jurisdiction of our committee are complex regulatory statutes which have an important impact on the public and the industries affected, but which have an insignificant impact as regards outlays. If legislation of this nature could be acted upon by committees after May 15, it would permit more adequate attention to be given by May 15 to bills which do have a material budgetary impact. Such a change, in my opinion, would be in the interests of the orderly and effective conduct of the business of the House and would not adversely affect the overall objectives of the Budget Act.

As regards another aspect of the Budget Act which has presented some difficulties, certain significant legislation related to direct spending, such as, for example, price support and related legislation carried out through the Commodity Credit Corporation, applies prospectively to a multiyear period. And it frequently is included in bills containing both authorizations and entitlements.

It has been customary for the committee to take up major farm legislation in 4-year cycles. This approach provides a comprehensive and predictable framework which permits farmers and others affected by the legislation to plan their production and related activities in a rational and informed manner—an advantage not possible under single-year legislation. Yet, notwithstanding its obvious merits, this multiyear approach encounters Budget Act pitfalls.

Under the Budget Act, authorizing legislation must be reported by May 15 but the Congress may not act on entitlement legislation until after May 15. It is possible, therefore, that urgently needed entitlement legislation could be stalled unless a budget waiver were to be obtained. Further, in the case of entitlements which would apply in the forward years of the multiyear period, the act, if literally applied, would prohibit consideration by the House of the entitlement legislation until after May 15 of the year in which the legislation would be effective. Again, waivers are necessary to permit consideration of the legislation. While the Budget Committee has generally been cooperative in this respect and we have usually been able to move multiyear legislation of this nature, it makes no sense, in our judgement, to be faced with this potential obstacle to an otherwise effective approach to legislation. New entitlements of the nature I have described could, I think, be subject to an exception which would obviate their being exposed to the problem I have outlined.

I would also like to raise another matter for your consideration. It involves the report that must be filed by all committees regarding the subdivision of allocations of budget outlays and net budget authority. It appears to me that this process could be simplified greatly. Instead of requiring each committee to file an individual report, it may be better for each committee to indicate to the Budget Committee periodically the basis on which it wishes future subdivisions of allocations to be made and for the Budget Committee then to make the necessary subdivisions in accordance with these directions. At the present time, the committees rely largely on the staff of the Budget Committee for a breakdown of the figures allocated to the budget categories under its jurisdiction. Such a system would avoid the multiplicity of allocation reports that are filed at least twice each year by the committees of Congress.

Before concluding, let me touch briefly upon the reconciliation process under the Budget Act. It seems to me that, to the extent reconciliation is deemed necessary, it should focus upon appropriations and perhaps direct spending authorities. To the extent that it focuses upon requirements for changes in authorizing legislation, the usual legislative process, including such salutary elements as hearings and markup by the committees and subcommittees of jurisdiction, is substantially aborted. In its place, particularly in 1981, was substituted an abbreviated process requiring hurried consideration of statutory changes in a superheated atmosphere. Thus, basic legislation carefully developed by the authorizing committees over the years was subjected, under the gun, so to speak, to hasty, piecemeal change. Such an approach not only immensely increases the changes of adoption of inadequately considered and ill-conceived legislation; it effectively bypasses an historic legislative process that has been structured over the years and whose roots go back to the early days of the republic. The budget process should, I believe, complement but not supplant the customary process under which legislation, especially authorizing legislation, is formulated.

Finally, permit me a more personal expression. During the past 2 years, the Budget Committee, under the steady and effective leadership of Chairman Jones, has labored under enormous burdens and pressures.

I would add that the Committee on Agriculture has also profited greatly from the budget expertise of Representative Panetta who, as a member both of the Agriculture and Budget Committees, has often apprised us of the important concerns of Chairman Jones and his colleagues.

Many of the frustrations and difficulties that we have encountered with the budget process during this period did not flow from the handiwork of Chairman Jones or the Budget Committee—or at least of its majority members. They flowed instead from measures adopted by the House, in many cases in spite of the Budget Committee—or at least of its majority membership. So, I want to commend Chairman Jones for his tireless efforts, under immense difficulties, to make the Budget Act work.

Mr. Chairman, this concludes my prepared testimony. I will be pleased to respond to any questions.

STATEMENT OF HON. JOHN D. DINGELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Dingell. Mr. Chairman, members of the task force, I am pleased to have this opportunity to share my views with you about the goals and operation of the congressional budget process.

My position should be clear at the outset. Congress needs a budget process: we cannot afford to return to the days when authorizations were enacted with no clear idea of the total being proposed for spending. However, the current process is an institutional disaster: it has altered the historical relationship between committees of Congress; it has altered the constitutional relationship between House and Senate on the initiation of funding and revenue bills; and it has altered the constitutional balance of power between the executive and legislative branches of Government.

This may seem a strong statement, but even a brief review of how the budget process has operated will bear it out, take reconciliation.

In 1980, the Budget Committee attempted to enforce budget ceilings by digging a catchall phrase about "other such matters" (301(a)(7)) out of the Budget Act and using it to move reconciliation from the second budget resolution, where it belongs, to the first.

This attack on the committee system was nonbinding. But in 1981, when the current administration came into office, we all remember what happened: Reconciliation was moved again from the second resolution to the first, and in addition instructions were made binding, they covered multiple years, they included substantive changes in authorizing laws, and they required reductions in authorized spending as well as direct spending.

This use of the Budget Act had a disastrous effect on the established procedures of this institution.

All changes in legislative policy, including authorizations, were made on the basis of a single vote on the House floor, severely limiting individual member and legislative committee choices.

Authorizing committees were not given credit for funding reductions until authorized funds were lower than the appropriated funds of the preceding fiscal year, limiting actions of the Appropriations Committee and interfering with its ability to discharge its responsibilities.

Multiple year instructions included fiscal year 1982 and fiscal year 1983, which fall to the 97th Congress, and fiscal year 1984, which falls to the 98th Congress. Need I point out that we presumed to interfere with the prerogatives of the 98th Congress?

Jurisdictional committees were not consulted about funding changes. Instead, the administration negotiated with the House and Senate Budget Committees, committees which were set up only for internal housekeeping chores, and through the budget process forced Congress to accept the single, most sweeping piece of legislation ever passed by the Congress. The procedure circumvented traditions and procedures fashioned over a 200-year period to insure that the House functions smoothly and that Members can participate responsibly in setting national policy.

Other unwanted institutional changes have crept in as the budget process has evolved. These inevitably result in undermining the traditional responsibility of the committees of jurisdiction.

A few examples: Committees no longer have a direct say as to how much money is needed to continue their programs. Instead, committees get a budget ceiling. Now in theory, these ceilings are to be constructed by adding up the recommendations of committees of jurisdiction. That is the reason that those committees submit the March 15 report to the Budget Committee. In reality, the report is ignored and the ceilings are constructed from CBO projections. The situation comes dangerously close to having an anonymous computer programer at CBO setting budgetary policy for the Congress and the Nation.

After the ceilings are set, committees lose—needlessly—even more flexibility in setting policy by being forced to report a subdivision of funds between subcommittees. The subdivision frequently happens before completion of all authorizing legislation and before members of a committee are ready to commit to a given division of funds.

The leadership has been reluctant to bring authorizing legislation to the floor before the first resolution, reasoning that Members need some idea of budget ceilings before agreeing to new authorizations. However, after waiting for the first resolution, there is insufficient time to act on all the authorizing legislation before we need to consider appropriations. The result is request after request to waive House rule 21 to allow legislative changes, like new authorizations, in the appropriations bills.

The budget timetable does not leave us sufficient time to pass appropriations bills. As a result, we fund the Government, not on the basis of judicious programmatic decisions, but through continuing resolutions. These resolutions make it extremely difficult for standing committees to determine how funds have been allocated to programs. Last December, the Commerce Committee asked the Department of Health and Human Services for an accounting of health program expenditures. We found that a quarter of the way through the fiscal year, HHS had not officially allocated money to programs, citing the lack of programmatic direction as the reason. Viable programs cannot go for a quarter, a third, or a half year without funding commitments. Make no mistake, continuing resolutions can prove a convenient tool for any administration to kill congressionally mandated programs.

I am so outspoken because the Budget Act in its present form disrupts the fabric of this House and of the Congress in a way that I believe jeopardizes the ability of Congress to continue to discharge its constitutional responsibilities.

We have given the process a fair chance to work. It has not worked. It is time to change.

A number of us who are concerned about the budget process have discussed some changes that will allow it to work efficiently without interfering with committee and institutional responsibilities. The major changes would include: Moving mandatory dates in the budget cycle forward to give the Congress more time to consider authorizing legislation and appropriations; changing the March 15 report to a committee report on macroeconomic factors, setting forth the economic assumptions upon which the budgeting process is based, and on the total committee budget needs; changing the budget resolutions to nonbinding resolutions addressing aggregate funding for committees and macroeconomic assumptions on which the funding levels are based; eliminating the requirement to subdivide funds among subcommittees; changing the criteria and process for selection to serve on the Budget Committee so that the membership is more responsive to the needs of this House and the public; limiting reconciliation instructions to a separate measure voted on after the second budget resolution; and stretching out the time for enactment and implementation of reconciliation instructions on entitlements.

Because of its importance to the Committee on Energy and Commerce, I want to concentrate for a moment on the entitlement provision.

As reconciliation stands, changes in entitlement funding are not final until late June. As the fiscal year for most States starts July 1, there is no way States can adjust their budgets to reflect the funding changes they will face on October 1. The system causes difficulties for State and local governments and great insecurity for entitlement recipients for whom the programs are lifelines.

With the proposed schedule, it is important to give the Congress more than 10 days to consider entitlement changes under reconciliation and to give the States and entitlement recipients time to prepare for the changes. I would suggest a new schedule, under which reconciliation instructions to committees for entitlement changes would be voted in the September reconciliation package, but affected committees would be given until April 1 of the following session to develop and report a package of changes. The Congress should act on each committee package individually by mid-April to give States time to plan for their next fiscal year. Then the changes would become effective October 1.

The proposed system would be fairer to those who must administer entitlement programs and those who are dependent on them.

I would leave the task force with one final thought: The current budget process interferes with the longstanding parliamentary traditions of this institution which have been a cornerstone of our form of government; it deprives Members of the ability to participate effectively in shaping national policy and to discharge their constitutional responsibilities.

Although there is growing dissatisfaction with the process and most Members see the need for changes, I believe the task force should not rush to conclusions on changes until it consults in depth with the authorizing committees—the committees who have the most experience with where the process has gone wrong and who will bear the brunt of any new problems arising from a new budget process.

Again, I thank you for the opportunity to share my views.

STATEMENT OF HON. JAMES J. HOWARD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. **Howard**. Mr. Chairman and members of the task force on the budget process, I welcome this opportunity to submit for the record a few thoughts about the congressional budget process, in particular selected issues of concern.

At the outset let me state that I continue to support the concept of a viable and meaningful budget process. However, given the varying experiences of the last 8 years, I also believe that the time is now ripe to begin work on making the budget process a more useful exercise within the context of the overall legislative process. In talking to other Members, I know that there is great interest in doing so. Therefore, the purpose of this statement is to address some of the concerns I have about the present process. With this as a beginning, over the next few months I am committed to working with other committee chairmen and interested Members on a more in-depth analysis of these issues and on formulation of specific recommendations.

Mr. Chairman, as you know, budgets are, by their nature, political documents. A congressional budget resolution, like a Presidential budget proposal, set forth macroeconomic policy as well as budget priorities. In July 1974, when the Congressional Budget and Impoundment Control Act was adopted, the Congress declared that it was essential: (1) to assure effective congressional control over the budgetary process; (2) to provide for the congressional determination each year of the appropriate level of Federal revenues and expenditures; (3) to provide a system of impoundment control; (4) to establish national budget priorities; and (5) to provide for the furnishing of information by the executive branch in a manner that would assist the Congress in discharging its duties.

In achieving these reforms, Congress chose to consolidate major economic and budget decisions in a single measure—the budget resolution. Accordingly, an understanding of the original intent of proposing and adopting budget resolution is crucial to any analysis of the effectiveness of the process and the prospects for its success in the future. In this regard, I would like to focus my comments on two major issues: The timing of the congressional budget process; and the scope of the budget resolutions.

TIMING

The first issue is of great concern to all of us since it has a tremendous impact on the overall legislative process.

One of the major considerations of budget reform was the expeditious and timely consideration of authorization and appropriation bills to insure orderly congressional action and an end to continuing resolutions. As we know, that has not happened primarily, I submit, because of the early timing requirements imposed by the process.

Over the last few years, Congress has experienced increasing difficulties in trying to report its authorization legislation by May 15. So much time is spent on the March 15 views and estimate report—cutting into hearing schedules, and so forth—that one of two things inevitably happens: Either May 15 becomes an impossibility, or, in meeting it, the overall quality of the legislative product suffers.

In addition, one wonders about the relevancy of the May 15 requirement, given its original intent in the Budget Act: To expedite consideration of appropriation bills and to provide guidance in formulation of the first budget resolution. Since the former is still a problem and the latter usually moot by May 15, I think the entire issue of the need for an authorization reporting deadline—and if so, when—should be studied.

Conversely, the March 15 effort has taken a great deal of time due to the specificity of detail which is required, the lateness at times of the President's budget submission, the delay in receipt of guidelines from the Budget Committee, etc. The systematic trend away from a macroeconomic approach in these reports, their overall utility, and the accountability of the Budget Committee regarding their ultimate treatment are all issues of concern.

In conjunction with this, the timing of submission of the President's budget should be reviewed. For the most part, budgetary information is available prior to the statutory date of 15 days after Congress convenes. Any additional leadtime that could be gained by changing this date could greatly benefit the legislative process.

Likewise, assuming a revision in the early timetable requirements of the Budget Act, consideration should also be given to changing the deadline for adoption of the first budget resolution by Congress. We recall the number of times when the budget resolution was not adopted until late June, thereby preventing consideration of any spending bills until at least that late date.

Whatever changes are proposed to the budget process dealing with the issues of appropriation bills and continuing resolutions, the timing of second budget resolution, and reconciliation—a process which I will address later in my statement—I believe that it is imperative that we insure that all congressional action be completed prior to the beginning of the fiscal year.

SCOPE OF BUDGET RESOLUTION AND RECONCILIATION

As you know, the core of the congressional budget process is the budget resolution. Various issues have surfaced over the years regarding the effectiveness of this vehicle as a statement of fiscal policy. Accordingly, I believe an analysis of the scope of the resolution—macro, versus micro, 1 year versus multiyear, binding versus nonbinding, and so forth—is appropriate.

In addition, reconciliation as a budgetary tool should be reexamined in light of the experiences of the last 3 years—its impact, original intent, scope, and so forth.

NINETY PERCENT SELF-FINANCED TRUST FUNDS

During consideration of the first budget resolution for fiscal year 1983, I supported an amendment which exempted from the deferred enrollment requirement of the Budget Act 90-percent self-financed trust fund spending bills if, and only if, Congress increases revenues for these programs. It is important to note that this exemption applied only to 90-percent self-financed trust fund programs which historically apply earmarked revenues for a dedicated purpose and which are currently exempt under the Budget Act.

It is important to note further that this amendment became necessary because these self-supporting type programs were made subject to the same procedural constraints as general appropriated programs. This should not be the case as these programs receive no appropriated funds, do not add to the deficit, and are exclusively user financed.

I am, therefore, exploring ways of exempting these 90-percent self-financed trust funds from all procedural safeguards of the Budget Act and particular budget resolutions without jeopardizing the integrity of the budget process or the concept of a unified budget.

RELATED ISSUES

To insure constancy of the budget process I believe serious consideration should be given to limiting the scope of the budget resolution to specified items. For example, sections 301 (a)(7) and (b)(2) of the existing Budget Act have been used consistently in including extraneous matter in a budget resolution far from that intended by the original framers. Oftentimes these included matters are a result of unilateral decisions that involve issues of significant programmic impact not readily apparent at first glance.

In considering the conference report on the Budget Act, the managers stated that section 301 shall apply only to the specific procedures for the enactment of budget authority and spending authority legislation for the coming fiscal year and not to the jurisdiction of committees, the authorization of budget authority, or to permanent changes in congressional procedure.

It may be argued that inclusion of authorizations in the reconciliation process last year under the authorities of this section was an example of a violation of the letter if not the spirit of the law.

In addition, I propose to give serious study to some resolution of the practice of authorizing in an appropriation bill. A direct violation of the rules of the House, this practice has all too often, as far as this Member is concerned, gone unchecked.

Other issues need to be addressed both in the context of their utility and impact: deferred enrollment, section 302 allocations, uniform system of economic assumptions, floor consideration of budget resolutions, etc.

Mr. Chairman, in considering these as well as the other issues that I have raised it is imperative that if we are to adhere to wise and prudent funding policies, we must do so through a meaningful and viable budget process. Achieving such a process is a challenge that now faces all of us. Over the next few months we are going to find out whether we have the resourcefulness and the determination to meet it. Together, I believe we can. Thank you.

STATEMENT OF HON. CARL D. PERKINS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KENTUCKY

Mr. PERKINS. I commend the Committee on Rules for setting up a task force to examine the congressional budget process. Gross abuse of the process during the 97th Congress necessitates such examination. Moreover, the process has been in operation long enough to enable us to pinpoint its strengths and its weaknesses. I appreciate the opportunity given me by the task force to express my views and concerns in this regard.

May I say parenthetically that I have the utmost respect for the integrity and ability of the individual members of the Budget Committee. In particular, Chairman Jim Jones and Leon Panetta have been most cooperative and helpful in the difficult budget processes to which the House has been subjected in the past 2 years. The observations I make are not to be construed as criticisms of their performance. Rather, they are criticisms of some misconceptions of the Budget Act and the procedures it requires.

The budget process was divised as a means of returning to the Congress its constitutionally vested power over Federal spending. In my opinion it has produced some positive results. The work of the Congressional Budget Office and the Budget Committees, for example, has resulted in our having better access to Federal financial and budget data. In turn, our ability to make spending and revenue decisions has been significantly enhanced.

At the same time, I believe there are some serious shortcomings at which we need to look. These shortcomings have been particularly evident during the past 2 years.

Budget deliberations have virtually paralyzed the legislative process. In each of the past 2 years we have done little more than pass a budget resolution, a reconciliation bill and continuing resolutions. This paralysis is especially apparent in the appropriations arena. Since 1978, Congress has repeatedly failed to enact appropriations bills by the beginning of the new fiscal year. On October 1, 1981, only one bill had been enacted. This year we will not have enacted a single appropriations bill before the beginning of the new fiscal year. The entire Government will be operating under a continuing resolution.

In addition, the present administration has made a mockery of the budget process. They have not used the process to control or reduce Federal spending, as they would have us believe. Spending has, in fact, dramatically increased. Rather, with almost lock-step control of the minority party in the House, they have been able to make it the vehicle for realizing philosophical changes with respect to the nature of government itself. We have been confronted with last-minute, omnibus substitutes. Major changes in substantive law and public policy have been enacted almost overnight. And, ironically, as a result we have ceded to the White House and the Office of Management and Budget the responsibilities we sought to repossess when the Budget Act was passed in 1974.

In large part, our current predicament stems from the fact that we have not adhered to the letter or the intent of the provisions we included in the 1974 act. In the 93d Congress we worked diligently to devise a process by which to make spending decisions with more precision and efficiency. At the same time, our special concern was to ensure continuation of the legislative process as a whole and the role of the authorizing and appropriations committees in that process.

As set forth in the act, the first resolution would contain spending targets. Following adoption of the resolution, the Congress would work its will with regard to individual programs through the normal process. The standing committees would conduct hearings and report legislation which, in turn, would be considered by the full House and Senate. Following this, Congress could reconsider its earlier budget action, make any changes which its investigations or new economic conditions indicated were necessary, and in a second resolution make a final determination as to overall spending. At this point, if total authorized spending exceeded the limits of the second resolution, we would be required to reconcile the differences. The act itself and the legislative history are quite specific on these points.

In the past 2 years, we have subverted this process. We have done so principally by loosely interpreting one small provision of the act, section 301(b)(2), which gives the budget committees authority to prescribe "any other procedure" considered "appropriate to carry out the purposes of the act". In the name of expediency, we have used this authority to condone a number of activities which are contrary to the act and the legislative process.

We have invoked reconciliation in the first resolution, and thereby, in effect, set fixed ceilings in the first resolution.

This year we have abrogated the need for a second resolution altogether by providing that if we have not passed a second resolution by October 1, the provisions of the first will automatically become binding.

Last year we reconciled authorizations, an action which negates the prerogative of the Appropriations Committee to determine program funding levels.

In the 1981 omnibus reconciliation bill, we made major changes in substantive law and public policy without resort to committee expertise.

There are other problems as well. We have inhibited the Appropriations Committee's ability to consider appropriations legislation because we have failed to adhere to the timetable contained in the act. The act prohibits consideration of spending bills until Congress has completed action on the first budget resolution. This year negotiations involving representatives of the White House, the Senate, and the House (entirely outside the framework of the Budget Act) delayed adoption of the resolution well beyond the May 15 deadline.

Committees with direct spending jurisdiction have been instructed to make extensive changes in complicated entitlement programs within a timeframe which does not allow for adequate examination of the programs. Last year, for example, the amount of entitlement reductions which the Committee on Education and Labor was required to achieve was of such magnitude that it was necessary to make major changes in the child nutrition and guaranteed student loan programs within a matter of days. We had little opportunity to hear from program participants and administrators relative to the possible effect of those changes.

As a further means of assuring authorizing committee input, the Budget Act requires them, on March 15 of each year, to give the Budget Committee their recommendations relative to programs and activities within their respective jurisdictions. The Budget Committee has required committees to submit very detailed reports. Much time is spent in their preparation. Yet, these reports are paid scant attention when the Budget Committee marks up the first resolution. The Budget Committee, for example, has included in the budget resolution programmatic assumptions which have been rejected by the legislative committee. The Committee on Education and Labor, in its report on March 15, 1982, emphatically rejected the administration's proposed changes in the Federal Employees' Compensation Act. Yet, such changes were assumed in the resolution as first reported by the Budget Committee.

More and more we are becoming embroiled in extensive debate on line-item considerations. This past May hours and hours of floor debate was devoted to specific dollar assumptions for specific programs. A number of amendments sought either to increase or decrease the assumed funding level for given programs.

Technical aspects of the process have created difficulties, indeed, absurdities. Consider, for example, the unnecessary confusion which has resulted because CBO, OMB, the House and the Senate have used different assumptions with regard to spending, revenues, the economy. In addition, we are making important policy decisions on the basis of assumptions which we well know are totally unrealistic.

I have outlined some of the shortcomings which I perceive in the budget process. I think it is imperative that we get the budget process back on track and, more important, that we assure the House's ability to function. In order to accomplish these objectives, I would make the following suggestions.

We should repeal section 301(b)(2). The language of this section was never meant to provide blanket authority. The statement of managers accompanying the 1974 conference report places specific limits on it. If we continue to view the section as a license to sanction any action though desirable, we will also continue to create havoc and weaken both the budget process and the House.

In order to assure that the appropriations and legislative committees maintain a voice in the process, reconciliation should only be used in conjunction with the second resolution, as originally intended, and we should limit reconciliation to spending and revenue measures. In order to give committees time to make changes in entitlement programs we should provide for a 1-year delay in the effective date of those changes. We should leave to the discretion of the individual committees what they want to include in their views and estimates reports, and we should require these views and estimates to be incorporated in the Budget Committee's report on the resolution.

Our failure to meet the Budget Act deadlines could be dealt with by putting the budget process on a more expeditious track. We could move forward the timetable for consideration and adoption of the first resolution, including receipt of the President's budget. We could then set aside more extensive time periods in which precedence would be given to consideration of authorization and appropriations bills. If Congress fails to adopt the first resolution by a specified date, we may also want to permit floor consideration of spending bills for which there is authorization.

Finally, we need limit budget resolutions to macrototals and economic assumptions, and we need to agree on realistic assumptions.

In conclusion, let met again comment the work which this task force has undertaken. I have attempted to outline some of the problems I see in connection with the budget process. There are solutions to these problems. I have suggested some. I do not pretend to know what all of them are. I do hope that as you continue to consider this issue you will work with all of us, the authorizing committees, the Appropriations Committee, and the Budget Committee, in an effort to derive solutions to our mutual problems.

STATEMENT OF HON. MELVIN PRICE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. **Price.** I appreciate the opportunity to comment on the budget process review being conducted by the Rules Committee Task Force. It has been more than 8 years since the Congressional Budget and Impoundment Control Act was enacted in July of 1974. With any law, a review is required after a period of years to see if the statute has achieved the results intended. For a law of such sweeping influence, this review is critically important, and it is doubly so in this case because the Congressional Budget Act, and the process it entails, affects not only the whole of the Federal budget but the very fundamental operation of the House of Representatives as well. The work of the task force is, in my opinion, therefore, as important as any job facing the Congress.

I believe the Congressional Budget Act should be examined from the standpoint of what was intended, what it has accomplished, and what side effects have resulted that were not anticipated when the law was enacted.

The remarks that follow are not intended in any way as criticism of the individual members of the Budget Committee who, I believe, have worked conscientiously within the guidelines provided to them. In particular, I think the present chairman of the committee has worked tirelessly and in a statesmanlike manner in carrying out his duties.

As to what the Congressional Budget Act has accomplished, it has made the Congress, and indeed the country, more aware of the totality of the Federal budget, it has given us an overall view of each year's budget and of the status of the macroeconomic elements of the budget—revenues, outlays, budget authority and deficits—and has forced us to think more rigorously about choosing among budget priorities. In short, it has made us aware of the need for budget discipline, though we may not be able to honestly say we have achieved such. Often overlooked perhaps is that the 1974 statute has been particularly successful in limiting executive branch use of impoundment. The budget process also, particularly in recent years, has made a contribution in getting the Congress to think of budgets more in multiyear terms, rather than just in terms of an isolated year's outlays. I will have more to say on that later.

The Budget Act, however, has failed to achieve some of its important objectives and has had side effects that threaten grave consequences for the legislative branch. Let me devote myself to just two major points: scheduling and the quality of legislation.

SCHEDULING

We are presently faced with a budget schedule that does not provide adequate time for consideration of other legislation. But at the same time we have failed to improve on a sorry record of late enactment of appropriation bills—indeed the record appears to be worse than ever. This is true even though improving the timing of congressional budget action was one of the major objectives of the 1974 statute.

A document published by the Budget Committee in 1976 entitled "The Congressional Budget and Impoundment Control Act of 1974: A General Explanation" contains the following:

> While most spending legislation is expected to be acted upon the months immediately following the adoption of the first resolution on May 15, it is crucial for all spending bills to be completed by the deadline date (the 7th day after Labor Day) . . . even a small delay in completing authorizing and spending legislation can upset the timing of the remaining budget actions (adoption of the second resolution and completion of the reconciliation process). Congress would then be forced into continued reliance on "continuing resolution," a major defect sought to be corrected by the new budget process.

We read this at a time when we are not only well beyond the beginning of a fiscal year with very few appropriation bills adopted, but in danger, for the first time in my memory, of concluding the year without a defense appropriation bill being enacted, an action that could add substantially to the cost of the defense programs approved when an appropriation is eventually adopted next year. Even if the defense bill passes, it appears that a majority of appropriation bills will not be enacted before sine die adjournment.

This is true even though the Congressional Budget Act delayed the start of the fiscal year by 3 months in order to aid in getting appropriation bills enacted before the new fiscal year began.

At the same time we have instituted a budgeting process that compresses the time available for authorizing committees to consider programs, prohibits floor consideration of legislation prior to enactment of the first budget resolution—so that there is a dearth of floor business early in the year—and results frequently in consideration of appropriation bills before consideration of the authorizations that the appropriation bills are intended to finance.

I believe that several modifications in the timetable could be made within the basic framework of the budget process to improve its operation and turn it toward its original objectives.

First, I suggest that the President should be required to submit his budget no later than January 3 of each year. Under this schedule committees would receive the budget 2 or 3 weeks earlier than at present. Subtracting 2 or 3 weeks from the year and a half that the executive branch spends in preparing the budget would not be burdensome to that branch, but an additional period of weeks would be very helpful to committees in getting an earlier start in reviewing complex budget material. The original schedule established by the Congressional Budget Act compressed the Congress time for consideration of the budget but did not change the timetable of the executive branch. Equally important, departments should be required to submit simultaneously with the budget the extensive backup data that committees require to make an accurate review of the document.

Second, the budget resolution, and authorization and appropriation legislation must be considered in proper sequence and scheduled according to firm dates.

I believe the first budget resolution, which is a target resolution and which is properly targeted on macroeconomic considerations, could be moved up in the schedule so that it is reported by March 15 and considered by April 15. That would require the committee preliminary reports to the Budget Committee to be filed by the 1st of March.

During the period from April 15 to June 15 authorization legislation should be considered privileged so that it is given priority for consideration on the House floor. After June 15 appropriation legislation should be given similar priority status, as is the case today, until all appropriation bills are passed.

This schedule would allow the House to complete action on authorizing legislation before the inevitable pressure to pass appropriation bills. The present practice of passing appropriation bills before the authorization they are designed to finance is a violation of the rules of the House, leads to inconsistent direction to executive agencies, and gives the public the impression that the House is disorganized.

For the institution to establish and live by a firm schedule there must be incentives for getting work done on time and penalties for delay. A committee that gets its legislation reported promptly should not be penalized by having to wait months to have the legislation considered in the House. Some mechanism might be devised where a committee reporting major authorization or entitlement legislation would have a right to call the bill up within a set period of time, say 15 days. Conversely, there should be some penalty for failing to meet deadlines. It is interesting to note that authorizing committees have a very good record of meeting the present reporting deadline of May 15. The reason in part is that the recognize they would be penalized by some loss of control over their bill if they do not report on time. There is presently no penalty for late reporting and action on appropriation bills or on the second budget resolution. I would leave to the task force's judgment some mechanism to create incentives to finish action on appropriation bills, the second resolution, and reconciliation before the beginning of the next fiscal year.

Likewise, the task force must find a way to remove the incentive for delay. Under certain circumstances, passing a continuing resolution might seem more advantageous than passing an appropriations bill; that is, where the appropriation is likely to be larger than the level at which the administration wants to fund a particular activity. The reverse might also be true. Whatever short-term advantages might accrue, the damage to the credibility of the process cannot be overlooked.

The task force must find a procedure where work is done on time and authorization and appropriation bills are passed by the Congress before the fiscal year to which they apply. Such will only be achieved if there are substantial disincentives to delay. It must not be forgotten that avoiding delay requires executive branch cooperation.

QUALITY OF LEGISLATION

The impact of legislation on the quality of life of our citizens is related more to the quality of legislation than to its price tag. But the budget process has consumed our attention with dollars, often with immediate outlays, and has even led us to force legislative changes in a budgetary context without any detailed consideration of the programmatic impact.

The House, on a recommendation from the Budget Committee, such as in a reconciliation bill, can direct and can force a legislative committee to make reductions or changes in programs within its jurisdiction. It is perfectly proper for the House to do that. I'm sure the task force can devise a mechanism where, if a committee's inclination is to decline to report a bill, the House can require it to do so. The important thing, however, is that changes in major programs should be drafted by the committee that has jurisdiction, that has the expertise, that can properly consider the impact on people and programs and can devise the most desirable way to make reductions or other changes.

I was particularly struck last year by the manner in which action was taken in changing the retired pay increase formula for Government employees. It is not a question of whether or not some spending limitation is necessary in that area. And in retrospect, the modifications made may turn out to be the most desirable formula. However, if it does turn our to be correct, much of the credit will have to be given to sheer luck.

What struck me particularly was that the compromise that came out of conference was a completely different formula than what had been approved in either House. While perhaps germane, the provision contained in the conference report appeared to be a wholly new formulation of how to limit the size of retired benefits in the future. That means we have taken action affecting the income of hundreds of thousands of citizens over possibly a long period of years, actions involving millions and millions of dollars, without the provision that was enacted being subjected to scrutiny by the committees of jurisdiction, committees of expertise in either House of Congress, and without the provision being even extensively debated on the floor of either House. Again, the formula that was devised might prove to be the most desirable, or at any rate the least objectional, but there nevertheless seems to be great inherent danger in such a procedure.

Enacting legislation is difficult and serious business and if done right takes time and extraordinary attention to detail. It seems to me that the least we owe to our citizens is to have a thorough study, through the hearing process, to consider carefully all possible adverse effects or possible inequities that might arise and to give those who would be affected an opportunity to present their views and to express their own opinion of how benefits might be limited in their area.

I would far more rather trust to legislation framed by members of the committee of jurisdiction after due consideration, even if it were forced by the House to take action to make reductions it would not have otherwise made, than trust to the luck of the draw from a conference committee made up of members who may be dedicated and hard working but may not be experts in this legislative area and have not had the benefits of extensive hearings and research on the issue.

The committee system grew naturally from the need for Congress to get all its business done and still bring to bear the maximum amount of attention and knowledge in any given area. If we are going to set aside the committee system, it should be done consciously and only after we are sure we have devised a better method of enacting legislation. The reconciliation process is hardly such a method.

Looking back on the work of this or any Congress, history will judge the work by the kind and enduring quality of the major legislation enacted. It will not remember it by the price tag of that legislation enacted. Yet the price tags are what we seem to be consumed with today.

I would hope you could devise a method of simply getting us back to what was intended when the congressional budget process was enacted: A process that requires consideration of a target resolution in the early spring and a final budget and reconciliation in the fall, and that devotes the major part of the year in between to consideration of legislation on its merits independent of the constant focus on the budget.

In addition, the budget resolution and reconciliation instructions, where necessary, once adopted by the House should be applicable to all areas within a committee's jurisdiction, rather than only to direct spending authority. The legislative committees should retain authority to make priority decisions on specific programs within the whole range of budget areas under their jurisdiction.

One of the things that seems to have gotten the legislative process shunted aside is the emphasis in the budget resolution on outlays and spending authority. The focus on spending authority and outlays in a particular year is a way of shifting priority assessments. However, this approach often has a much more substantial and unintended impact on programs possessing a slower outlay rate compared to those with a fast outlay rate. In the long run, applying reductions to budget authority could provide more flexibility and better policy coordination. Policy decisions are properly made based on the budget authority required to implement the policy, rather than on the outlay rare. The outlay rates for a particular decision should not drive the assessment of its desirability.

Finally, as I said at the outset, use of the budget process has made us all think a little more in multiyear terms. And I think the task force might consider building on that beginning by examining whether the budget resolution itself should focus on a longer time frame, such as 2 years, in recognition of the lengthy time necessary to make significant changes in the complex ongoing Federal budget. Establishing its economic program and fiscal guidelines for a longer period would permit the Congress to legislate more effectively and to provide a stable basis for a rational fiscal policy.

Beyond that, the task force might wish to study further the desirability of adopting authorization and appropriation legislation covering a 2-year period.

I wish to express my appreciation again for the opportunity to state my concerns and to commend the task force for the important effort it is undertaking.

STATEMENT OF HON. DAN ROSTENKOWSKI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. ROSTENKOWSKI. Mr. Chairman, I welcome this opportunity to appear before this Task Force on the Budget Process. Preparing this testimony has caused me to reflect on a vital element of the legislative process—indeed, a "legislative fact of life"—which for all involved is at once vexing, and at other times a cause for institutional optimism.

I want to assert from the outset that there is no doubt that Congress needs—indeed, must have—the discipline of a procedure which compels fiscal responsibility. "Living within our means" is not a passing political fancy. It wasn't in 1974 when we first passed the Budget Act and it is not now. It is a national mandate—a priority which has rightly permeated the debate over programs and policies because the people demand it.

I believe that the budget process can work, and is working in ways both subtle and obvious. It does, however, need a tuneup, if not an overhaul, if we are to provide an atmosphere for thoughtful, timely, and competent legislation. With the experience of the last 2 years, especially, we have witnessed the passage of giant reconciliation measures which approached the mandate for fiscal responsibility in blockbuster fashion. The process compressed the time for consideration of crucial changes in program and policy, causing Congress, in one huge marathon, to run a course of practical and political obstacles which in times past took much longer to negotiate. As a committee chairman charged with a good deal of that burden, I am unable to say that the tradeoff in time spent has necessarily resulted in a better legislative product.

Yet, at the same time, the Budget Act has afforded us sufficient flexibility to adopt a different approach to reconciliation this year, permitting individual committees to proceed directly to the floor with their separate reconciliation measures. It is this flexibility in the process that has enabled us to achieve whatever success we have had thus far. Those successes are significant. No overall spending ceiling has been breached by an appropriations bill since the passage of the Budget Act. In 1981 and 1982, Congress actually surpassed reconciliation targets for spending cuts. Congress has consistently largely met the mandates of the Budget Act.

We have come a long way, but we need to make the "getting there" in the future more direct, more efficient, and more practical for obtaining legislative goals we set for ourselves.

This is why I am pleased to have this opportunity to present a brief look at how the process affects the operation of the Committee on Ways and Means, and some suggestions for changing the system by which we attempt to "live within our means."

Before turning to a description of how the budget process has affected our committee and a discussion of some of its weaknesses, let me emphasize some of the strengths of the current process.

One of the strengths of the process is the recognition that if reconciliation is to be used as a tool for reducing Government spending, it must be implemented as part of the first budget resolution, and not the second.

The 1981 reconciliation process was very unsettling. This may have been more a result of the rule that was adopted than the actual budget act. Nevertheless, we learned from that experience, and, as a result, this year each of the committees brought to the floor separate bills which in total met the reconciliation targets.

Another positive aspect of the budget process was the formation of the Congressional Budget Office. In my judgment, this organization has provided invaluable analysis to the legislative decision-making process.

Since enactment of the Budget Act, some necessary elements of flexibility have evolved and improved what was initially an overly rigid process. The enforcment provisions under section 302(a) have changed, and now focus on congressional action and insulate the overall budget from economic and technical reestimates. In addition, ad hoc groups have met to standardize economic assumptions.

I want to offer my support for the current system of revolving membership on the Budget Committee. In my view, this system strikes a necessary and delicate balance between the desire for budgetary expertise and the need for wide participation among Members of the House.

Let me turn now to how the process specifically affects the operation of our committee.

Mr. Chairman, although my testimony today does not officially reflect the views of the Committee on Ways and Means but I know that many on the committee share my concerns about the current functioning of the process, and, despite its shortcoming, share my belief that the process must continue in a strengthened form.

The Committee on Ways and Means has a unique position with respect to the budget process. This uniqueness was first reflected by the membership of the Joint Study Committee that was created to develop the budget process. That committee, on which I was pleased to serve, was made up primarily of members of the Committee on Ways and Means and the Committee on Appropriations.

I also would note that my predecessor as chairman of the Committee on Ways and Means served as the first chairman of the Committee on the Budget. So, our committee has a long record of involvement in, and support for, the process.

At the same time, however, because no other committee of the Congress has within its jurisdiction such a complexity of major programs, we inevitably become entangled in the budget process. Well over half of the aggregate amount of spending reductions in the Omnibus Reconciliation Act of 1981 and 1982 were within the jurisdiction of the Committee on Ways and Means.

Some of our programs are funded by trust funds and are accorded special status under various provisions of the Budget Act. Other entitlements are funded out of general revenues and, therefore, are treated differently. Some of our entitlements are provided directly to individuals while others are in the form of matching funds or block grants to States. Finally, some of our entitlement programs are subject to appropriation limitations and, as such, have the characteristics of both entitlement and nonentitlement programs. I mention this to emphasize that every program has its own unique set of budget considerations and problems—which increases the difficulty of producing quality legislation.

In addition to our far-ranging entitlement programs, Ways and Means has the responsibility for the raising of all Federal revenues through a combination of taxes, tariffs or other inform national fees. Some of these revenues are earmarked to directly pay the costs of various entitlement programs, while others go into the general fund. No other committee of the House has the fexibility to approach deficit reduction measures both from the revenues and the outlay side of the ledger. To date, the budget process has not adequately recognized this unique characteristic in allowing the committee to most appropriately meet its budget goals. For example, in assessing our current deficit situation, the committee has been reviewing, among other things, the imposition of selected fees designed to offset the costs of certain Government outlays. Such changes contribute to the reduction of the deficit just as significantly as direct spending reductions. They are, however, not recognized as such in the budget reconciliation process.

At the same time we acknowledge the need for and basic soundness of the budget process, we should also acknowledge that it has been a major impact on the legislative process. It has significantly affected the policymaking and oversight activities of Congress.

As I have already mentioned, in addition to its Federal revenue responsibilities, the Committee on Ways and Means has the responsibility of overseeing and participating in the management of some of our most important and complex social programs. In addition to the federally run Social Security Act programs, we have jurisdiction over public assistance and unemployment compensation programs which are administered by State or local governments under Federal guidelines. Changes in Federal law pertaining to these programs can have a major effect on State and local government budgets and administrative capabilities, as well as affect the well-being of thousands of families. Whether the intent is program reduction or expansion, any proposed change should be carefully and thoroughly considered, and reflect information received from administrators, recipients, outside analysts and other interested parties. In addition, there should be adequate time and resources provided for the implementation of major changes. We know that insufficient consideration of proposed amendments and haphazard administration of changes can result in serious mistakes, program disruptions and unnecessary hardship for affected individuals.

I believe that a major reason for frustration with and ambivalent attitudes toward the budget process is that it has made it more difficult for the committee to fully evaluate proposed amendments to programs and adequately review the impact of previously enacted changes.

For example, the March 15 report, the first formal act in the annual budget process, requires subcommittees and committees to make important budgetary and agenda setting decisions too early in the session. We do not have sufficient time to adequately review and evaluate the administration's budget. Most of the time we do not even have detailed explanations of administration budget proposals, let alone statutory language, before we make the critical March 15 report decisions. As a result, we end up making arbitrary estimates of anticipated spending that frequently come back to haunt us later in the session when, because of hearings, more information and analysis, we have a significantly different perspective.

Particularly in the past 2 years, in our efforts to comply with budget resolutions, we have acted too quickly and made judgments on major changes with inadequate information and analysis. As a result, we have made mistakes.

For example, in the Omnibus Budget Reconciliation Act of 1981, we passed an administration proposal that changed the "accounting period" in the supplemental security income (SSI) program. This change, according to the administration, was going to save $150 million in fiscal years 1982, 1983 and 1984. Primarily because of budget deadlines, we did not have time to adequately analyze these proposals. As a result, shortly after it was enacted, we discovered that, in fact, the change was going to increase SSI costs by about this same amount. Furthermore, as a result of this change, the amount of the checks going to aged, blind and disabled SSI recipients, each year, would change three times during the 4-month period of June through September. This would cause substantial confusion among the recipients as well as unnecessary administrative costs. A provision in the recently enacted tax bill corrected this situation for future years, but during the current fiscal year this mistake costed the Federal Government approximately $50 million. This is just one example. Our recent experience with the social security minimum benefit would be another.

In order to achieve Federal spending reductions in the forthcoming fiscal year which were mandated by budget resolutions, we have enacted many changes in programs with unrealistic effective dates. Reconciliation bills enacted in recent years have required States to implement changes in their unemployment compensation, AFDC and other programs before State legislatures could pass necessary implementing legislation or before necessary administrative changes could be made. Because the effective dates have been unrealistic, the estimated savings have been unrealistic. Furthermore, we have forced many States into a situation where they are out of conformity with Federal law. This is now a serious problem. The enactment of totally unrealistic effective dates, in order to achieve Federal savings on paper, has severely undermined our ability to enforce State compliance with changes in Federal law. The repetition of this irresponsible practice has damaged Federal/State relations and the administration of Federal/State programs.

The numerous procedural requirements in the Budget Act have made it even more difficult to enact major reform legislation. It is impossible to construct a large, omnibus reform bill that contains many diverse provisions dealing with complex and diverse State programs, that does not violate provisions of the Budget Act. In drafting such legislation, the committee must spend an excessive amount of time adjusting provisions for the sole purpose of meeting Budget Act deadlines and procedural requirements.

The budget process has made it more difficult for our committee to respond to emergency situations. For example, in May of this year, when unemployment first reached record levels, the committee reported out a bill providing additional weeks of unemployment benefits. In order to meet the objective of the legislation, which was to provide immediate assistance to workers who were starting to exhaust unemployment benefits, the bill was made effective upon enactment. However, because this would have resulted in expenditures in the current fiscal year, under the Budget Act the bill was referred to the Appropriations Committee for 15 legislative days. A program of additional weeks of unemployment benefits finally took effect September 12, 4 months after the committee reported the original bill. In the meantime, thousands of unemployed workers were without benefits. I acknowledge that there were additional reasons for the delay in this legislation. However, I am convinced that this unemployment bill could have been approved by the House in May or early June if it had not been automatically referred to the Appropriations Committee, where absolutely no action was taken.

We need to be able to meet the objectives of the Budget Act without disrupting the legislative process or undermining congressional policymaking. To the extent that, and in those areas where, the budget process interferes with congressional policymaking and program oversight responsibilities, it should be appropriately modified.

RECOMMENDATIONS

With the objective of modifying the budget process so that committees will have time to engage in program ovesight and evaluate proposed changes, the task force should give careful consideration to moving to a 2-year budget cycle, such as that put forward by Representative Panetta; or changing to a single budget resolution under which deadlines, such as the March 15 report, would occur at least 31 days later than under the current procedure.

In order to allow for the adequate implementation of adopted changes in programs, particularly where State enabling legislation and complex administrative adjustments are involved, reconciliation instructions should be in the form of aggregate savings over a 3-year period, rather than for the forthcoming fiscal year. In addition, the Committee on Ways and Means should have considerable flexibility in meeting its reconciliation instruction through a mixture of new revenue adjustments and program savings.

Many times the committee has attempted to pass minor revenue or tariff bills or correct minor inequities within the entitlements programs. These bills with small budget impacts typically are caught by the budget process. I believe we would improve the situation by allowing small bills to be exempt from the process. I recognize that this might create a loophole, but if the budget impact is small (i.e., $10 to $50 million over a 3-year period or less than 1 percent of the revenues or program) the Budget Act should not be a stumbling block.

I am already informed that as of October all tariff and revenue bills for the next 12 months will be subjected to a point of order because they violate section 311(a) of the act. The reason for this is that the committee did not meet the revenue reconciliation instruction for fiscal year 1983 even though we exceeded it over a 3-year period. In addition, there have been technical reestimates that have lowered the amount of projected revenue for fiscal year 1983. I believe the enforcement of the act should be targeted on the discretionary legislative action that is assumed by a budget resolution over a 3-year period. In many ways, this would strengthen the enforcement of the act. In addition. it would not present legislation that exceeds the budget resolution from being enacted simply because economic conditions have changed.

There was a great difference between the reconciliation process this year and that of last year. The increased flexibility and committee independence that characterized the process this year should be made permanent. With regard to reconciliation, the goal of this task force should be to devise a process that: One, minimizes the disruption of the normal legislative and program oversight procedures; two, maximizes the independence and flexibility each committee has in developing and securing the adoption off the legislative changes that will meet its net budgetary levels; and three, insures that the full House will have the opportunity to become fully and accurately informed of the changes in programs that are being considered.

The task force should review provisions in the Budget Act pertaining to "emergency situations" and consider how and to what extent greater flexibility can be incorporated, into the process allowing Congress to be more responsive to extraordinary conditions. Along this line, I do not believe the automatic referral of bills to the Appropriations Committee or the delayed enactment procedure serves any useful purpose. Our experience has been that it simply delays enactment. Therefore, I recommend that they be deleted; or, modified so that they do not hinder Congress from responding to emergency situations.

While we are on the subject of recommendations, I strongly oppose any attempt to limit tax expenditures through the congressional budget process. My opposition to such a limitation does not mean that I am unconcerned with the proliferation of tax expenditures in recent years, often as a result of Senate amendments to relatively clean House revenue bills. Particularly at a time when budget outlays are being carefully scrutinized and sharply reduced, similar strict standards should apply to tax expenditures. However, the proper concern of the budget process is with aggregate revenues, and not with the question of exactly how those revenues are to be raised.

There are several serious problems with any proposed limitation on tax expenditures. First, the aggregate amount of tax expenditures is a number with very little meaning. Unlike the budget aggregates—receipts and outlays—tax expenditures are not observable. Budget outlays represent actual cash flows from the Treasury. These can be measured precisely after the close of a fiscal year. In contrast, tax expenditures represent revenues which are not collected for a variety of tax policy reasons. These uncollected revenues are never precisely observed. Therefore, estimates of their size are inherently inexact, requiring controversial assumptions about how individual taxpayers, business taxpayers and the economy will respond to changes in the law.

There is also extensive controversy over exactly which tax provisions should be treated as tax expenditures. For example, the tax bill enacted last year contained a new deduction for married couples designed to reduce the marriage tax penalty. Is this deduction a tax expenditure, or is it just one of the several mechanisms in the tax law used to determine the relative tax burden of different tax paying units, like the head-of-household rate schedule which is not now treated as a tax expenditure?

Finally, a tax expenditure limitation could have a number of unintended effects. For example, suppose tax rates were reduced. Due to the interaction of such rate reduction with other tax provisions, the rate reduction would reduce the size of those tax expenditures representing deductions or exclusions from income. Therefore, there would be room to add new tax expenditures and still stay within the limitation, clearly an undesirable result.

When the Committee on Ways and Means considers revenue legislation, it carefully looks at modifications and repeal of certain tax expenditures. For instance, in the Tax Equity and Fiscal Responsibility Act of 1982, approximately $37 billion of tax expenditures over the 3-year period 1983–85 were either reduced or eliminated. This process of review of tax expenditures is undertaken by the Committee on Ways and Means regularly as part of its oversight responsibilities. Therefore, a tax expenditure limitation as part of the congressional budget process is wholly unnecessary.

Despite the criticisms that I have made, I want to clearly state that I strongly prefer a strengthened budget process to either a constitutional amendment or statutory language. We can deal with our problems without beginning all over again.

The budget process as we know it today is an evolving system for living within our means. It is often subjected to ridicule from within and without Congress for its inflexibilities, criticized when manipulated for political purposes, and scorned for not achieving its goals. We must neither allow these negative assessments to call into question the wisdom of having a process nor to halt efforts to improve or modify it to make it work. For all of its frailties, perceived or real, it is one of our best hopes of securing the confidence of the people in the Congress ability to get fiscal control of the Government. To accept, as some might have us do, the premise that the process can't work would be to agree that we have neither the resolve nor the talent to succeed.

STATEMENT OF HON. JOHN N. ERLENBORN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. ERLENBORN. Mr. Chairman, first I commend you and the members of the task force for undertaking this close look at the goals and operation of the congressional budget process. Although the process has shown surprising resiliency in the face of extreme tests and much criticism, a thorough examination of the process and exploration of means of improving it should help us maintain an enhance the spending discipline the Budget Act was meant to impose.

I appreciate the opportunity to share with the task force some of my concerns, suggestions for improvement and, as you requested, my views concerning the effects of the budget process on the activities of the Education and Labor Committee, on which I serve as ranking Republican member.

Many suggestions have been put forward which have merit. Initially, it is obvious to me that the degree to which the Congress may effectively control the budget depends on the large measure on the extent to which Federal activities are subject to congressional budget procedures. For this reason, I believe many activities listed as "off budget" should be included in a unified budget. Among these are loan guarantee commitments. Thus, I have cosponsored H.R. 2372 to give the Congress oversight authority over Federal loan programs and permit coordination with other fiscal activities. Subjecting loan and loan guarantee programs to the discipline of the budget process will enable us to coordinate lending activities with other fiscal activities and assess the effects these lending programs have on the availability and cost of credit in the private sector.

You have, no doubt, heard from many other witnesses about the need for uniform revenue and spending estimates. Almost everyone who has looked into the operation of the Budget Act seems to agree that the process would be vastly improved if it were based upon a single set of assumptions that would be used by all budget decisionmakers. I could not agree more that all budgetary decisions should be built on a common set of forecasts and projections regarding the economy and other variables affecting budget totals.

There is not as much unanimity, of course, in deciding just who should be responsible for providing these common projections. As you know, many approaches have been advanced. I believe giving this responsibility to a board with representatives from the Congressional Budget Office, Federal Reserve Board, the administration, and the two Budget Committees is one of the better ideas suggested. But whatever form this joint decisionmaking body takes, the key is to insure that we are no longer asked to deal with the conflicting figures and often totally unrealistic projections that have plagued the budget process.

I favor moving to a single, binding resolution each year. This would simplify and streamline the process and encourage more serious attention to the accuracy and credibility of the numbers in the spring resolution. The difficult decisions to cut spending or increase taxes should be made early in the year and not deferred till the eve of the fiscal year in question.

Once the single, binding resolution is in place, we need to insure compliance through the reconciliation process. We have seen in years past the dismal results without this internal disciplinary device. Reconciliation is essential. It is in many ways the central feature of the budget process.

Moreover, where reconciliation cuts are assumed in the budget resolution, specific instructions to the cognizant committees should follow. As I will discuss later in my testimony, the Education and Labor Committee this year had a number of cuts assumed in the budget resolution without specific instructions to make those cuts. In practical effect, this serves less purpose than assuming the cuts in the first place. In fact, unrealistic assumptions (that is, those that are not likely to take place without the forced discipline of reconciliation) contribute to unreliable total figures.

I also believe changes are needed to strengthen enforcement of spending limits. Where a waiver of a point of order is requested to permit consideration of legislation that would breach the budget limits, the law should provide that this can be done only by a recorded vote of three-fifths of the Members voting, a quorum being present.

As is well known, efforts to control the size of the Federal budget have been frustrated by the large part of the budget devoted to the so-called relatively uncontrolled expenditures, including indexed programs. A federally indexed program is defined as one for which the Federal Government is required to make a formal change in a rule of general effect because of a change in a factor outside the program. This automatic indexing has added significantly to our budget woes. The costly practice of indexing impedes the reduction of Federal outlays when that course of restraint becomes necessary. Most programs with indexed benefits use the Consumer Price Index [CPI] as the indexing device. Other programs use other measurements.

Whatever the measurement used, I believe some means must be found to control the automatic growth of indexed entitlement programs and at the same time prevent the inequities which result when, for example, cost of living adjustments are capped for one group of beneficiaries but not for another. Moreover, we should take a closer look at the use of the Consumer Price Index, now the most commonly used device for measuring the extent of inflationary pressures. Studies have shown that the CPI has shortcomings as a measure of the cost of living. Among changes in the Federal Employees Compensation Act that I have advocated in amending the basis for the cost-of-living adjustment from increases in the Consumer Price Index to the average annual Federal wage increase so that employees on disability are treated equally with nondisabled employees. The adminstration's proposal would take the lower of the CPI or the average Federal wage increase.

Whatever measure is used to calculate the initial benefit level and adjust that level of benefits to take into account changes in the economy, I urge new provisions in the Budget Act to help us move to a common, controllable, equitable means of changing benefits within the constraints of the budget.

I also suggest some changes in the impoundment process which the executive branch has been using increasingly as a budgetary tool. Under the present statute, the only means for the Congress to reject a rescission proposal is to allow the 45-day period to expire without congressional approval of the proposal. If Congress fails to act, the President is required to make the funds available for obligation. Is it any wonder then that congressional inaction has resulted in the disapproval of 85 percent of all Presidential rescission requests since 1976. Most of these requests were never formally considered by the Congress.

To make what I consider an essential change in the procedure, I have cosponsored H.R. 2163 which would require the Congress, within 45 days after Presidential notification of intent to rescind, to pass a resolution disapproving the recession. By changing to congressional disapproval rather than passive approval resulting from inaction, the President will more effectively be able to control unnecessary spending without in any way abrogating the rights of Congress over the appropriation of funds.

At the present time referrals allow the withholding of budget authority until rejected by either House. Deferrals, too, could be subjected to a test of congressional sentiment.

One additional minor, yet important, change I would like to see is a requirement that the views and estimates submitted to the Budget Committee by March 15 under the current timetable take the form of official committee prints with accompanying reports to afford an opportunity for all members of each committee to express their views, should they differ from the official committee position.

Although a number of commentators and observers of the congressional budget process have advocated changing to a biennial budget cycle, I do not join in favoring such a change. The disadvantages I see in such a move far outweigh any advantages that have been cited to justify such a major change in the system. In the first place, even among those who favor the 2-year budget cycle, there is very little agreement as to the sequence of key events and how to set up a realistic timetable. Given the questionable validity of the economic assumptions and projections now being made, imagine the results of longer range assumptions. Imagine the continual readjustment of assumptions that will be required, and imagine the increase in the number of supplemental appropriations bills we will be asked to consider. I think it is inevitable that moving to a 2-year cycle will breed even more, not less, preoccupation with budget matters and will offer no significant strengthening of the process to justify such change.

EDUCATION AND LABOR EXPERIENCE IN 1981

Mr. Chairman, you expressed an interest in learning my views concerning the effects of the budget process on the Education and Labor Committee. I believe our committee's experience may be especially instructive because last year the Budget Committee gave the Education and Labor Committee the unenviable job of coming up with approximately one-third of the total savings required by the first budget resolution. This was a task we did not assume lightly, nor was it easy in the face of the initial recalcitrance exhibited by the majority members of the committee. We were asked to report changes in entitlement laws within the jurisdiction of our committee sufficient to reduce budget authority by $1.963 billion and to achieve savings in discretionary programs by reducing budget authority by $10.136 billion, for a total reduction of spending in excess of $12 billion. Obviously, this was an awesome mandate.

Through the adoption of the Gramm-Latta substitute we came very close to achieving what was asked of us. In title V of the Omnibus Reconciliation Act of 1981, we limited authorizations for appropriations for numerous education programs and made significant improvements in the escalating guaranteed student loan program, including pacing an income cap of $30,000 adjusted gross income, imposing a loan originating fee to offset the payments the governments make to the banks and raising the interest rate on the parent loan program, as well as making amendments affecting the Student Loan Marketing Association [Sallie Mae].

Also included in title V is the Education Consolidation and Improvement Act which restructures elementary and secondary education programs so that decisions are made at the State and local level, with a minimum of paperwork and interference from the Federal Government. We consolidated some 28 small categorical programs into a single block grant. This means that for the first time every State and school district will have its own pot of Federal funds with which to meet its own needs. It also means that neither the State nor the Federal Government can tell a local school district how to spend its Federal funds, so long as it complies with the stated requirements of the law.

In title VI we capped spending for the Head Start and Follow Through programs and established a community services block grant incorporating most programs formerly administered by the Community Services Administration.

In title VII we capped CETA appropriations for fiscal year 1982 for job training programs, eliminated funding for CETA public services jobs, increased the percentage of funds to prime sponsors under the title IV-A youth programs and decreased the funds available for discretionary projects by the Secretary of Labor, allowing prime sponsors more flexibility in transferring funds between programs. We also limited funding for the U.S. Employment Service.

In title VIII we lowered the Federal subsidy for school lunches and breakfasts, revised income eligibility guidelines, reduced commodity assistance for school lunches, terminated food service equipment assistance, limited private school participation in lunch programs and restricted eligibility for summer feeding programs. A number of other programs were affected as well, including education for the handicapped, vocational rehabilitation, programs for older Americans, child abuse prevention and treatment programs, juvenile justice and low-income energy assistance. We examined these and many other programs to determine where and how we could reconcile proposed expenditures with the totals permitted by the first budget resolution. Then we worked with the conferees of the other body to improve our joint proposals so that necessary reductions were made in the most judicious and responsible manner possible.

I believe the scope and breadth, the very range of programs involved, the fact that cuts were assumed through reconcilation in 16 programs under the jurisdiction of the Committee on Education and Labor—all of this—make clear the significant contribution this committee made to the success of the 1981 reconciliation effect.

EDUCATION AND LABOR 1982 EXPERIENCE WITH FISCAL YEAR 1983 BUDGET

As in 1981, the committee staff experienced difficulty in obtaining from the Budget Committee printed material which showed exactly what assumptions were contained in the first budget resolution, both as passed by the House and after adoption of the conference report. This difficulty was not in any way attributable to lack of cooperation from the Budget Committee staff; rather, the problem appeared to be simply that no document existed which could give our staff the information they needed. Moreover, there were at least two so-called "big ticket" items on which the House and Senate numbers differed after adoption of the conference report by both bodies. The Senate included $714 million carried over from fiscal year 1981 deferred funds in their figure for the CETA job training program which the House Budget Committee did not include, and their numbers differed on the guaranteed student loan program as well because of differing assumptions.

I, of course, recognize that funding assumptions in the budget resolution are merely suggestions of how spending should be distributed and that the authorizing committees, when asked to meet the spending targets, can make the recommended cuts wherever they choose. Nevertheless, at that stage of the budget process the assumptions with regard to each program are needed, and I would recommend that the Budget Committee provide each committee with printed material in some form showing the spending levels assumed in the adopted conference report.

More troublesome, however, to our committee this year was finding ourselves in the position of having entitlement reductions of $127 million carried in the first budget resolution functional totals but not assumed in reconciliation. These reductions included cuts in the guaranteed student loan program and the Federal Employees Compensation Act, as well as expected savings in black lung disability payments and special benefits for disabled coal miners to be achieved by action of the Post Office and Civil Service Committee in limiting the civil service pay increase to 4 percent. Neither that committee nor our committee was instructed to make those reconciliation savings assumed in the budget resolution.

We have seen in previous years that without reconciliation very little was achieved in lowering spending levels to match budget assumptions. To reply on voluntary compliance with any committee and base aggregate spending totals and all that flows from such calculations on such a pipedream merely provides ammunition to those who claim the budget process is based on unrealistic assumptions or, worse, is a sham.

In response to my request, the chairman of the Education and Labor Committee called a full committee meeting to consider taking action to implement the entitlement reductions assumed in the budget resolution. The outcome of that meeting was predictable despite the fact that I had ready a proposal to reform the Federal Employees Compensation Act which would significantly reduce its cost. Had we been mandated by reconciliation instructions to make the reductions assumed, we probably would have been successful, as we were last year.

I submit that in the real world we cannot hope to see "assumed" savings necessarily realized unless they are accompanied by specific reconciliation instructions to the committees having jurisdiction over the programs.

Once again, I commend the chairman and this committee for providing this forum for consideration of the issues that have been raised about operation of the congressional budget process and for exploring the many proposals being offered for strengthening the process. Responsible Federal budgeting, and the role of Congress in achieving this goal, cannot be overstated.

[Whereupon, at 12:25 p.m., the task force was adjourned, to reconvene Wednesday, September 29, 1982.]

CONGRESSIONAL BUDGET PROCESS

WEDNESDAY, SEPTEMBER 29, 1982

House of Representatives,
Task Force on the Budget Process,
Committee on Rules,
Washington, D.C.

The task force met, pursuant to call, at 10:15 a.m., in room H-313, the Capitol, Hon. Anthony C. Beilenson (chairman of the task force) presiding.

Present: Representatives Beilenson, Frost, Bonior, Hall, Panetta, and Rhodes.

Mr. Beilenson. We will get started now if we may. Today our Task Force on the Budget Process is holding the fourth in a series of hearings on the congressional budget process. This will be our last hearing, of course, before Congress adjourns for the elections.

We hope to have some more hearings when we come back in November.

We are fortunate to have today as witnesses several distinguished Members from the other body, all of whom have had substantial experience operating under the provisions of the 1974 Congressional Budget Act.

Their testimony on the difficult issues relating to the budget process will be extremely useful to us as we proceed with developing recommendations on this topic.

Our first witness is the gentleman from Delaware, Senator William Roth. Senator Roth is chairman of the Senate Governmental Affairs Committee which has joint jurisdiction over the budget process with the Budget Committee and the Senator is a sponsor of major legislation to the amended Budget Act, S. 2629.

He is also the author of an opinion piece on the budget process which appeared in the Washington Post a few months ago, and which many of us saw and approved of.

Senator, we thank you for taking the time to come over and share your thoughts with us. We look forward to listening to you.

STATEMENT OF HON. WILLIAM ROTH, A U.S. SENATOR FROM THE STATE OF DELAWARE

Senator Roth. Thank you, Mr. Chairman. I want to congratulate you and the other members of this task force because I think there is no more important problem facing Congress than the problem of trying to make our procedures more effective and more efficient.

As I have said many times, I strongly believe that our current budget system is a vast improvement over the chaos which existed before its enactment.

However, I do see ample room for improvement. I will discuss the major problems I find in the current process in a moment, but first, I want to consider with you the fundamental question of whether this is the right time for the revision of the Budget Act.

Should we amend the process in a time of policy turmoil, or should we wait until the storm subsides?

My response to this question is that if we do not move soon to streamline the cumbersome aspects of this process we run the danger of seeing it abandoned altogether.

In the next few years we will be faced with a multitude of difficult, complex policy decisions.

I don't care what side of the problem you are on.

There is no question that to address the problem of the burgeoning deficits, hard choices will be required of the Congress. Frankly, my legislation is not designed to be an economic cure-all. It would, however, allow us to make the necessary decisions in a more logical, rational way.

The budget process has evolved as the fundamental process for setting national priorities. This is certainly one of the central roles Congress performs, but it is not, or should it be the only function of Congress. My legislation would set a realistic timetable for the Congress to make the essential spending decisions while allowing time for other duties and responsibilities. It would help provide much needed certainty to the financial markets and the rest of the country.

Last October, I convened hearings in the Governmental Affairs Committee to explore some of the problems of the current process. We were pleased to hear testimony from several Members of both the House and Senate as well as other individuals with expertise in this area.

Mr. Chairman, the problems we discussed last October have not gone away in the past year. In some ways they have gotten worse. Since our hearings last year, we have witnessed the November 1981 continuing resolution spectacle, when the Government ran out of money. And, here we are at the end of September with only three regular appropriation bills through the Congress.

During the past 5 years, not only has Congress been unable to pass the 13 appropriation bills within the Budget Act deadline, all 13 were not even passed by the end of the fiscal year they were intended to fund.

In the past 5 years, Congress has not been able even once to meet the deadline for the passage of the first budget resolution.

The second budget resolution has been adopted more than 2 months after the September deadline for the past 3 years, well after the start of the fiscal year for which they were passed.

Congress may be unable to meet these deadlines partly because of the lack of consensus on many of the fiscal policy issues.

I submit, however, that Congress will not maintain a process that cannot accommodate the inevitable conflicts which will arise in a politically charged environment. A budget process which works only in periods of relative consensus will not survive.

I believe it is increasingly clear that Congress attempts to make too many decisions each year and that many of these decisions are redundant.

Last year, which I assert was in many ways typical rather than unusual, Congress raised a revised second budget resolution for fiscal 1981, a first budget resolution for fiscal 1982, a budget reconciliation bill, several appropriations bills, two continuing resolutions, a second budget resolution, and a supplemental appropriations bill.

It is easy to see how all these measures dominated the congressional schedule. I contend that many of these decisions are matters which could logically be combined or eliminated. The extraordinary number of decisions required by the Budget Act effectively confuse not only much of Congress but I suspect most of the Nation, with regard to the condition of the economy. How can the public hold us accountable for our budget decisions when we consider at least three different budgets to fund a given year?

It is confusing enough when we must constantly make necessary policy revisions. But in terms of the efficient use of congressional time to pass two, or more likely three budgets for one fiscal year along with all the other spending measures, makes little sense.

This preoccupation of Congress with the budget process including appropriations each year, clearly has the effect of physically limiting other business which Congress must consider.

By devoting so much congressional time to sometimes redundant decisions, there is often not enough time left to consider the fundamentally important policy issues.

Issues such as national defense and foreign policy, for example, are extremely complex, yet crucial to our Nation. Of course, the Federal budget will always be an arena for decision in these areas.

What concerns me, however, is that because of spending time on budget decisions Congress will not have sufficient time to do the groundwork to make informed, well-considered decisions on these issues.

The profusion of activity which precludes so many crucial congressional activities also obscures the basic purpose of a budget process: to establish limits on Federal spending and revenues.

The budget process has not been as effective as it could be in enabling the Congress to control the Federal budget.

As a result of the hearings last October, I formulated a comprehensive revision of the congressional budget process. This legislation is designed to address these concerns, making needed modifications while retaining the strengths of the existing budget process.

Briefly, my legislation, the Budget Reform Act of 1982, would establish a 2-year budget cycle. The first session of each Congress would be devoted to budget and appropriations. Early in the year, the Congress would agree to a single binding budget resolution, which would prescribe spending and revenue limits for the 2-year period beginning in the next January. Within the framework of the budget resolution, the Congress would then approve an omnibus appropriations bill, which would combine the 13 annual appropriations bills into one 2-year bill. The second session of each Congress would be devoted to considering authorizations and to oversight activities.

S. 2629 would allow each new President and Congress to put their policies into place in the first year of their respective terms.

Under S. 2629, budget policy would go into effect in the second session of each term, as it now does under normal circumstances.

I believe this approach to a biennial timetable would promote accountability to the public for budget decisions. Under alternative timetables, budget decisions would not actually go into effect until the election of the next Congress.

In order to enforce these spending decisions reconciliation would be permitted any time after the binding budget resolution was passed.

If budget conditions drastically changed, the budget resolution could be revised by a two-thirds vote of the Congress.

The purpose of this provision is to force the Congress to review its spending habits and perhaps revise priorities, instead of routinely revising the budget every time.

My legislation would improve congressional control over the Federal budget.

It would bring spending of off-budget agencies into the unified budget.

My bill does not encompass a credit budget format, although it would certainly not preclude it. I know Senator Percy and others have done extensive work in this area, and I believe it has great merit.

In conclusion, my legislation would streamline the cumbersome aspects of the current process while strengthening the overall control of the Congress over the Federal budget.

S. 2629 would provide us with more time for oversight and for careful review of authorizations.

Recipients of Federal funds would have a clearer basis for planning. Stability and coherence would be promoted in the broad framework of our fiscal policy decisions.

Last month, I am pleased to say that both Alice Rivlin, Director of the Congressional Budget Office, and Charles Bowsher, Comptroller General, testified before the Governmental Affairs Committee. Their testimony on S. 2629 was very favorable.

As chairman of the Governmental Affairs Committee which has jurisdiction in the Senate over changes in the budget process, I believe S. 2629 embodies the direction in which we need to progress on budget reform.

Mr. Chairman, I hope to hold additional hearings early next year on this proposal. I would hope the Governmental Affairs Committee of the Senate will report a comprehensive budget reform measure early next year.

I think it is extremely important that we work together in trying to develop the needed change in this area.

I know the members of the task force have worked intensively this year, studying and reviewing the budget process in great detail. I know we will all benefit from your insights and recommendations on this issue.

Thank you, Mr. Chairman.

Mr. BEILENSON. Thank you, Senator. Thank you very much for coming over here. Obviously, anything we end up doing next year—we hope to have our suggestions ready early in the next legislative session—has to be done with the two Houses working together, so we especially appreciate your sharing your thoughts with us and I hope that we can continue discussing these matters before the committees of either House starts putting out its recommendations or considering its bills.

Perhaps we can stay in communication and work together.

Senator ROTH. I would look forward very much to that.

Mr. BEILENSON. One quick question and then we will ask members if they have any questions.

It will be your Governmental Affairs Committee which would report any changes rather than the Budget Committee on your side? Is that how it works?

Senator ROTH. There is joint jurisdiction. They will be referred to both committees so we both have a role in the process.

Mr. BEILENSON. Do members have questions?

Mr. RHODES. I just wanted to thank my good friend Senator Roth for coming here and sharing his wisdom with us. He is one of the best informed Members of either House on the subject of budgetary matters and I found his statement to be very constructive. I happen to agree with him on the idea of the 2-year cycle.

I think there may be some refinements as to the availability of time for authorizations during the budgetary session on matters that might be of an emergency nature.

Senator ROTH. Absolutely.

Mr. RHODES. I think it makes an awful lot of sense to divorce the two. You said in your statement and it is true that the preoccupation with the budgetary process certainly inhibits the other work of both bodies of the Congress.

So I congratulate you. I think your statement is very good.

Senator ROTH. Thank you very much, John. I am frankly very concerned about the fact that to the people back home we do not appear to be dealing with the problems this country is facing.

I think one of the reasons is that our time has become so consumed with the budget process that in neither House have we been really able to devote. Oversight, I think, is something that has been sorely lacking.

Mr. RHODES. If we don't go to the 2-year budget I wonder if you would agree with me that something needs to happen on May 15.

As you know, the first concurrent budget resolution is supposed to be adopted by May 15 but if it isn't nothing happens. Having been on the original committee on this side studying the budget process, I was aware of that and many of us were but we couldn't agree on what had to happen.

In other words, what would that date trigger? My idea was if the first concurrent budgetary resolution was not adopted then the President's budget became the congressional budget and the Appropriations Committees could then proceed with the 302(b) divisions and go to work on appropriations bills.

I recognize that that probably wasn't the final answer but, nevertheless, it was an answer to which would get away from the logjam which we now find, if the first concurrent resolution is adopted late.

So I prefer your solution. If your solution doesn't work, then I think we have to find some way to make it certain that failure to pass the first concurrent budget resolution doesn't act as a dam to the other activities of the Congress.

Senator ROTH. I would share that concern. I haven't given careful thought to your specific proposal. But I will be candid, John.

My concern is not only that logjam but somehow lightening the burden of dealing with budget management.

If we don't deal with that then I don't think we are going to address the other problems that this Nation faces.

Mr. Chairman, I undertand I have a few more minutes but we have a vote going on in the Senate.

Mr. BEILENSON. Yes; we were just apprised of that. The Senator does have just a couple of minutes left before he has to go to rollcall.

Mr. Frost.

Mr. FROST. Very briefly, as I understand the way this would work, if we were to adopt this next year that it would not be put in place until calendar year 1985 which would be fiscal year 1986.

It is unlikely that we could pass it early enough next year to affect the process. It would leapfrog another year and then it would be on into the first year of the new administration if there is a different one.

There is a lot of pressure on the House side for us to do something. While your approach is very attractive, there may well be some short-term things we may want to look at also.

Senator ROTH. I wouldn't be opposed to that. I do think this, Mr. Frost, whatever we do this time we ought to try to make sure that it is as sound as possible.

Mr. FROST. I am not disputing that. I agree with that. I am only concerned about the pressures.

Senator ROTH. I would be sympathetic to trying to do something short range if we could.

Mr. BEILENSON. We will forgo our other questions. We appreciate very much your coming over here and, again, we will be back in touch with you because it is obviously imperative that we work together.

Senator ROTH. I look forward to that, Mr. Chairman.

Mr. BEILENSON. Thank you very much for coming.

Senator ROTH. Thank you.

Mr. BEILENSON. Let me advise members, this morning Senator Domenici and Senator Ford are both coming, and this afternoon at 2:15 we are going to have Mr. Giaimo and Mr. Bowsher and Dr. Rivlin.

[A brief recess was taken.]

Mr. BEILENSON. We are pleased to have with us the gentleman from Kentucky, Senator Wendell Ford. Mr. Ford is the ranking minority member of the Senate Rules Administration Committee, the committee that exercises jurisdiction over the rules of the Senate, one of the two Senate committees that reported the Budget Act.

Senator Ford, together with Senator Quayle, worked to introduce the Budget Procedures Improvement Act of 1982, S. 2864. We will take you out of order, Senator Ford, if you don't mind. We welcome you.

STATEMENT OF HON. WENDELL H. FORD, A U.S. SENATOR FROM THE STATE OF KENTUCKY

Senator FORD. It is always a pleasure to come to this side.

Mr. Chairman, with your permission, I have a statement, and the distinguished member from Maryland, Mr. Mathias, has a statement he would like to have placed in the record, and I would like to present that at this time. [See Senator Mathias' statement on p. 491.]

Mr. BEILENSON. Without objection.

Senator FORD. Mr. Chairman, I am grateful for the opportunity to appear before your committee during your hearings on the congressional budget process.

With your permission, I would like to submit my full statement for the record and confine myself at this time to a brief summary statement.

Mr. BEILENSON. It will be included in its entirety.

Senator FORD. I am sure all of you know that on September 30, 1981, I was joined by Senators Pell, Bumpers, and Danforth in introducing S. 1683, a bill to change the Federal budget cycle from 1 to 2 years and to make other necessary improvements in the budget-making process.

You also know that earlier this year, Senator Quayle introduced S. 2008 on January 25, 1982.

Senator Quayle and I have since come together on a proposal which includes certain provisions of both of the earlier versions. That measure is S. 2864, the Budget Procedures Improvement Act of 1982 which we introduced in the Senate on August 19, 1982.

I have noted with satisfaction that not only is the biennial budget proposal being given more attention within the Congress but also that the American press is paying greater attention to this issue.

Public discussion of this issue is important because a general consensus, in my opinion, on the 2-year budget will be necessary before we embark on such a venture.

It has been my experience that our present budget process has become increasingly unrealistic. Annual budgets and appropriations have not really worked for years and the additional requirements of the Budget Act have made matters worse.

I need not remind you that we began this fiscal year with only one of the 13 regular appropriations bills having been enacted, and it is possible that we will begin fiscal year 1983 without even one. In my opinion, the tragic stalemate we have reached in providing funds for the operation of the Government stems quite largely from our retention of an archaic annual approach to budgeting which simply does not afford time for the executive and the legislative branches to budget and appropriate effectively.

The time has come to face up to the realities that in our complex modern society, Government economic planning, budgeting, and appropriating cannot be done constructively in a 12-month period.

Moreover, it is unnecessary for most, if not all, of our Government functions to go through the authorization, budgeting and appropriations steps every year.

I believe there are many reasons why we should go to a biennial budget process. I plan to single out the key ones at this time.

First, it will allow the executive branch and Congress more time to analyze the thousands of budgetary decisions which must be made now on an annual basis.

Administrations would have months instead of weeks to prepare a budget and Congress would be allotted sufficient time to hold hearings and debate administration proposals—even after oversight was conducted.

The annual appropriations process restricts informed debate. I would like to underscore that if I may—restricts informed debate—on the budget and on consideration of major policy issues.

It does not allow the executive and legislative branches to ever really measure a program or an agency against established goals. Both branches are forced by the time constraints to limit themselves to reviews which are little better than pro forma for most programs. Very limited time, if any, can be devoted to program review, proper planning, and consideration of major policy issues.

The current annual appropriation process constitutes one of the most formidable barriers to longer-range and more comprehensive policy development. A multiyear perspective is required to foresee the impact of policy changes and to understand the opportunities for allocation of our resources.

I believe the 2-year budget period will also provide an opportunity for Congress to focus more on program effectiveness and to engage in systematic oversight, something which isn't being done.

Second, it will enable Federal agencies and State and local governments to plan better for the implementation of programs.

Moreover, it will relieve the uncertainty associated with annual appropriations and will result in an improved delivery of Government services.

We agree pretty much among ourselves that State and local governments must be provided advance notice of how Federal budget cuts will impact their plans and budgets.

However, the annual budget cycle fails to give these governments much leadtime.

States and localities often are forced to wait until the first day of the fiscal year to learn at what level or even whether a program will be funded.

An important goal of the biennial budget proposal is to reduce this unnecessary waste and mismanagement by providing advance notice of most budgetary decisions.

As a former Governor, I have had considerable experience with a 2-year budget. We were able to develop programs to the maximum extent through long-range planning. A 2-year Federal budget would greatly facilitate the ability of State and local governments to give stability and direction to programs under their jurisdiction.

This is something State and local governments do not have now and it is directly because of the limitations and complications created by the annual appropriations cycle, in my opinion, at the Federal level.

Finally, Mr. Chairman, I believe that the biennial cycle will inject a spending discipline throughout the Government which can have a significant beneficial impact on reducing inflation. It might even restore a certain amount of stability to the Federal fiscal policy and thereby to the economy as a whole.

Let me add that I don't believe we will lose any flexibility in meeting unforeseen changes in our economy, since supplemental bills will be even easier to move through the biennial budget process when they are needed.

Mr. Chairman, I hope that you and all the members of the task force will look seriously and carefully at S. 2864. It has merit and I believe deserves thoughtful study.

I believe it can help us not only save money in the aggregate, but that it will also help us make the difficult allocation decisions which are essential to achieving a balanced budget.

Mr. Chairman, let me again express my appreciation to you and the members of the task force for the opportunity to be here today. I will be happy to attempt to answer any questions you might have.

[Senator Ford's prepared statement follows:]

PREPARED STATEMENT OF HON. WENDELL H. FORD, A U.S. SENATOR FROM THE STATE OF KENTUCKY

Mr. Chairman and Members of the Task Force, I am very grateful for this opportunity to appear during your hearings on the congressional budget process. All of you, I am sure, know that on August 19, 1982, Senator Quayle and I introduced S. 2864, the "Budget Procedures Improvement Act of 1982." S. 2864 amends the Congressional Budget and Impoundment Control Act of 1974, the Budget and Accounting Act, 1921, and the Legislative Reorganization Act of 1946 for the purposes of:

1. Establishing a 2-year budget process. The budget for each 2 fiscal-year budget period is considered and enacted throughout both sessions of the preceding Congress.
2. Strengthening the procedural safeguards by prohibiting: (1) including reconciliation instructions in other than the required second resolution; (2) using budget resolutions to expand the congressional budget process to include additional aspects of government operations; (3) directing committees, in any budget resolution, to change legislation authorizing the enactment of new budget authority; (4) enrollment of spending bills until action on the second budget resolution and reconciliation is completed; and (5) considering reconciliation bills or resolutions or amendments thereto which make changes in legislation unrelated to the levels of budget authority, outlays, revenues, or the public debt.
3. Requiring that spending measures and budget reports include tables in which the estimates or recommendations are set forth in the same budget accounts used by the President, and requires the President to consult with committees prior to changing the budget accounts.
4. Strengthening the requirements for committees to conduct oversight investigations and to report their findings to their respective Houses during each Congress. Also strengthens the authority of committees to request assistance and information from agencies and from the General Accounting Office and other legislative staff agencies, while safeguarding the protection of confidential information.

These four points are amplified in the remainder of this statement, but, before I turn to them, let me state my position with respect to the congressional budget process.

I am not among those who propose changes to the Budget Act because they want to strip it of its effectiveness. I am not sure there are any people who do feel that way, but I am told there are. But if there are, I am not one of them. I view budgeting as one of the most critical functions of any organization, public or private. I am not saying that it is more important than any other aspect of government and that everything should be sacrificed to achieve efficiency and effectiveness in budgeting. But it is important, and, at the level of complexity of the government of the United States, which affects the entire national economy, indeed the world economy, and which affects in one way or another every business, every family, and every individual in this country, it should be expected that the budget process would be complex. It should also be hoped that it would be a rational process too, and I would argue that some additional complexity is the price of rationality. So while I am always sympathetic to appeals to simplify, I try to be wary that we are not discarding vital safeguards against rash and ill-considered action in the name of simplification.

As the Chairman will recall, the 1974 Act was considered, prior to action by the full Senate, by the Committee on Governmental Affairs and the Committee on

Rules and Administration, and it was the version fashioned in the Rules Committee, largely due to the attention that the distinguished Minority Leader, Senator Robert C. Byrd, was able to give it, that formed the basis for the process which was finally enacted. As I reflect on the 1974 Act I am more and more impressed at the fine job the architects of the Budget Act did in designing a rational process. In broad outline, the essential steps in that rational process are adoption of a set of target or planning numbers, allocation of the planning numbers to committees and allocation by the committees to programs, consideration and enactment of spending measures within the allocations, and wrapping up with a second resolution of binding numbers with provision for reconciliation of the binding numbers with the spending bills.

Now clearly there are some problems with the process or we wouldn't be here today. As I see it, there is one major problem and a series of small ones. About the small ones, I just want to say that they are generally not in the nature of specific provisions that have proven unworkable but are instead instances where language was not carefully enough phrased so as to prevent some things for happening which were never intended or even contemplated.

The major problem, however, is simply that there is not enough time in a year to carry out all the steps of this rational process. Now I don't think that we can fault the designers for that. It wasn't possible then to know what we know now about just how much potential for discussion there would be in a more developed budget process. And even if some of the designers had intimations that this would be a problem, to have proposed a 2-year process in 1974 would have seemed extreme and unreasonable.

But the idea of a 2-year budget has become one that seems reasonable. And one important reason to go to a 2-year budget is that we will be able to realize more fully the rationality of the budget process.

I will now turn to the four main points in S. 2864.

I. TWO-YEAR BUDGET

It has been my experience that our present budget process has become increasingly unrealistic. The annual appropriations process was not working prior to the enactment of the Congressional Budget Act of 1974, and the additional requirements established by that Act have made things worse. The pretense of acting as though it does work costs us dearly in time, money, and effort, but the greatest cost may be incalculable, the cost of poor decisions, made in haste, with inadequate consideration of the need or the consequences. The time has come for us to accept the realities that in our complex modern society, government economic planning, budgeting, and appropriations simply cannot be done constructively in a 12-month period. Moreover, it is unnecessary for most, if not all, of our government activities to go through the authorization, budget, and appropriations steps every year.

By making these essential procedures serve for a 24-month period, we can do a better job. We can actually do what we now pretend to be doing. We can save money. We can save time to devote to oversight and other important legislative activities. We can better meet the planning needs of State and local governments. We can establish and foster a measure of stability and discipline in government spending which can have a significant beneficial effect on reducing inflation. And we will lose no flexibility in meeting unforeseen changes, since supplemental appropriations bills will become easier to move through a biennial budget Congress when they are needed.

The schedule for the two-year budget cycle is set forth in Section 3 of the bill, as amendments to the Congressional Budget Act. Section 4 of the bill sets forth corresponding changes to other parts of the Budget Act, and Section 5 sets forth corresponding changes in the Budget and Accounting Act of 1921, which pertain to the submission of budget recommendations by the President.

The schedule proposed in S. 2864 is:

FIRST SESSION

November 10—President's current services budget submitted.

December 31—JEC economic evaluation of current services budget submitted to Budget Committees.

January 15—President's budget recommendations submitted.

January 15—Program reviews begin.

April 15—CBO reports submitted to Budget Committees.

May 15—Committees' Views and Estimates reports submitted to Budget Committees.

June 15—First Budget Resolution reported.
July 1—Authorization bills reported.
July 31—First Budget Resolution agreed to.
September 15—Committees report allocations of First Resolution amounts.
December 1—Congressional action completed on authorizing legislation.

SECOND SESSION

January 15—President's revisions to his recommendations submitted.
March 31—CBO reports submitted to Budget Committees.
March 31—Spending bills reported by House Committee on Appropriations.
April 15—Spending bills reported by Senate Committee on Appropriations.
June 15—Second Budget Resolution reported.
July 15—Spending bills agreed to.
August 1—Second Budget Resolution agreed to.
September 25—Action completed on reconciliation bill or resolution, and spending bills enrolled.
October 1—Two-fiscal-year budget period begins.
October 1—Committees report findings and conclusions from their reviews and studies of programs to their respective houses.

The essential pattern of the congressional authorization, budget, and appropriations process is retained in S. 2864, but some improvements which become possible in a 2-year cycle are incorporated. For example, Congressional action on authorizations, which all occur in the first session of a Congress is completed before the appropriations process begins in the second session. I might point out that the idea of an authorization year and an appropriation year was proposed by Senator Magnuson over 10 years ago. In the current 1-year cycle, authorizations are supposed to be reported before appropriations bills, but it is a fact of life that the appropriations committees begin their work concurrently with the authorizing committees and that the ideal of an "authorization, then appropriations" sequence is not realized.

Under our bill the Views and Estimates Reports submitted to the Budget Committees by other committees will be due one month after the due date for economic forecasts from the Congressional Budget Office. This will enable committees other than the Budget Committee to use the CBO analyses in their own deliberations, and better enable the Budget Committees to use the CBO analyses and committees' views and estimates in their deliberations on the first budget resolution. It isn't possible to really do that now because those events are scheduled too close to each other.

Committees would be given six weeks to report their allocations of the first resolution totals among programs within their jurisdiction. It is not possible to state whether this is more or less time than the present Budget Act provides because the present Budget Act just requires that these reports be filed "as soon as practicable" after the first budget resolution is agreed to. In practice, these reports generally have been filed (except for recent years because of the reconciliation instructions) within a few days of the agreement to the conference report on the first budget resolution. One of the reasons that we are proposing so much more time for these reports, and, as you will see in Part III, proposing a requirement for them to include budget account detail, is that we would like to see them become what they were intended to be, occasions for meaningful analysis and debate of alternatives within committees.

Far more time is provided for the second budget resolution and reconciliation. Six weeks will be provided for the second resolution, which can be more controversial than the first because of its binding character and because it can contain reconciliation instructions. And 8 weeks are provided for committees to carry out their reconciliation instructions, for the committee's work to be consolidated into an omnibus bill or resolution, and for Congress to act on the reconciliation measure. The Budget Act only allows ten calendar days for this now.

In the Senate the time for debate is extended from 20 to 100 hours. Mr. Chairman, this will correct one of the most serious flaws in the current process, the lack of adequate time to deal with measures as profoundly significant as the second budget resolution and reconciliation. Like most of the other shortcomings, this one is the result of trying to pack too many events into a 1-year cycle, and it is a problem that is easily solved by moving to a 2-year cycle.

Moving to a 2-year cycle would have been too much of a change to make in 1974 as part of the original Congressional Budget Act. But the changes of 1974 have become established, and it is timely now to move beyond them and to refine them in the light of our experience.

II. STRENGTHENING THE SAFEGUARDS IN CONGRESSIONAL BUDGET PROCEDURES

Mr. Chairman, with respect to other aspects of Congressional budget procedures, our proposals break down into five points. Four of them are not new, but merely clarify the original intent of the Budget Act. The fifth takes a procedure which the Budget Act now provides as an option and makes it mandatory.

The first point is to include a specific prohibition, enforceable by a point of order, against including reconciliation instructions in a first budget resolution. It was never intended that reconciliation instructions be in the first resolution, and it distorts the congressional budget process for them to be included. It is a serious flaw in the Budget Act that it intent can so easily be overriden. This proposal serves only to prevent from happening that which was not supposed to happen in the first place.

The second point is to prevent the budget process from being expanded through provisions in Budget Resolutions to include additional subject matter, such as Federal credit programs.

The third proposal is a specific prohibition, again enforceable by a point of order, against reconciliation instructions in the second resolution (or a revision thereto) which deal with authorizations. This too was never intended by the Budget Act. The legislative history, as Senator Hatfield has pointed out on several occasions, is quite clear on this point. Including such instructions is another distortion of the congressional budget process, and the fact that it has been done is further evidence of a weakness in the Budget Act which this proposal is intended to correct.

Such a distortion of the budget process is unnecessary. All the spending reductions that are desired can be achieved by instructing the Appropriations Committees to reduce appropriations by specified amounts, and by instructing authorizing committees to reduce direct spending within their jurisdiction by specified amounts. It is not necessary to good budget procedure to distort committee responsibilities and undermine the integrity of the authorization and appropriations processes in this way.

Now, I think I can see two reasons why it may have seemed desirable to some to include reconciliation instructions in the first resolution. In the first place, the current law, in the ten days scheduled for reconciliation, does not provide enough time for work of any magnitude or controversy. The 2-y process and the additional time for the second resolution address that need.

The second reason is that spending bills move through to enactment before the second resolution is agreed to. While in 1974 it may have seemed sensible not to deal with this problem, it now seems ludicrous that individual bits of the budget are finalized piece by piece before the budget as a whole is agreed to. The practical effect is often that bills come to the floor which cost more than was envisioned at the time of the first resolution and which take up room in the budget which either squeezes out other important bills or forces up the ceilings. I can readily sympathize with the frustration of the chairmen and other members of the Budget Committees as they try to deal with these horses slipping out of the barn one by one and can appreciate why they chose some of the procedures they have.

Our fourth point is simply not to let the horses out of the barn until we are ready to let them all out together; that is, to withhold enrollment of all appropriations and other spending measures for the applicable 2-year fiscal period until action on the second resolution and any reconciliation measure for that 2-year period is completed. Everything would be completed except enrollment. The appropriations and other spending bills would have been through both houses. They would have been through conference. And the conference reports would be agreed to. But they would not yet have taken on the status of enacted law, with all the overtones of finality that conveys to agencies and to the public. In the aggregate, they would constitute the budget, final except for one last step—the second resolution and reconciliation. Think how much more orderly, how much more rational this would be, Mr. Chairman, for the second budget resolution to have been agreed to, for precise changes to have been prescribed in a reconciliation resolution, for the Clerk of the House and the Secretary of the Senate to have made the changes in the spending bills pending enrollment, and then—and only then—for the President to be sent a set of bills which are all in accord with the budget resolution, in total and in detail, and which together constitute the Federal budget.

The fifth point is just to further close off another possibility for use of the budget process, and specifically the reconciliation process, for nonbudgetary legislative change. This would be done by prohibiting consideration of reconciliation bills or resolutions or amendments thereto which contain nonbudgetary provisions. This is in recognition of the fact that committees might see a reconciliation bill as a piece of "must" legislation, and, include, on their own initiative, in the materials submitted to the Budget Committee in compliance with reconciliation instructions, extraneous matters that would have a poor chance of being enacted any other way. Such a misuse of the budget process should not be allowed to continue.

Now Mr. Chairman, I should spend a minute or two on what these proposals would not do. S. 2864 would not prevent the President from substituting his proposals for those drafted by committees. When an omnibus reconciliation bill or resolution comes up on the floor, any member could move a substitute and that substitute could readily reflect the President's wishes. And I would like to make another point. While reconciliation would be specifically prohibited in the required first resolution or in a revision thereto, it would be specifically provided for in the second resolution or a revision thereto. So you could have, for example, during a 2-fiscal-year period a revision to the second resolution for that period, which could include reconciliation instructions and which could significantly change spending levels for that period.

III. STANDARD BUDGET ACCOUNTS

Mr. Chairman, the Budget and Accounting Act, 1921 requires the President of the United States to submit to the Congress a proposed budget for the next fiscal year. The Act also specifies some of the information to be set forth in the submission. The President's submission has for years been set forth in four books: a brief summary entitled "The United States Budget in Brief," a compendium of special analyses entitled "Special Analyses, Budget of the United States Government," the actual budget document itself, entitled "Budget of the United States Government," and a volume of additional details entitled, "Budget of the United States Government, Appendix."

That the budget be presented in the form of these four documents is not required. It is just done that way. The heart of the structure is a table, known as the "Budget Accounts Listing," which, in the fiscal year 1982 budget ran 180 pages (from page 369 through 548) and which contains approximately 1250 separate budget accounts, arranged by agency and bureau, and cross-coded to the 18 Federal functions and the 70 subfunctions.

Nothing in the Budget and Accounting Act requires the President to set forth his proposals in the Budget Accounts Listing, or gives any guidance or imposes any restraints on changes in the Budget Accounts Listing from one year to another. Because it would be a big effort to send up a wholly new structure each year, the Budget Accounts Listing does not change extensively from year to year, but it changes enough to be a source of confusion now that the Congress is involved in the budget process more extensively and with more attention to detail than ever before. Part of the problem is inadequate prior information on the changes which will be in a new budget, so a lot of the time is wasted just playing catch-up with the new accounts, with the deleted accounts, with the renumbered accounts, with the new agencies and bureaus, and with accounts that have lost activities to or gained activities from other accounts. All this reduces the time available to deal with substantive issues. We are at risk here in that only the restraint of inertia keeps the volume of changes from rising to a level where it becomes impossible to deal with any questions of substance.

Then the problem is compounded within the Congress because of the individualistic behavior of committees. None seem content to just work with the account structure submitted by the President. Each appropriations subcommittee reports a bill that has a table with its own account structure. As in the case of the President's budget from one year to the next, there is a familiar similarity, and many line items which are the same. But there are others that are different. And the Congressional Budget Office, in its 5-year projections, has its own account structure. The Senate Budget Committee has developed its own unique "mission" structure, which in some cases is the same as the federal subfunctions and in some cases is not. The authorizing committees in their Views and Estimates Reports to the Budget Committees exhibit great variety. Some include no account detail at all. Some use OMB accounts, some may use CBO accounts. Spending bills reported by authorizing committees seldom, if ever, have budget account detail, thereby making comparisons with even the highly aggregated reports of allocations of budget resolution totals virtually impossible.

The point, Mr. Chairman, is not that any of these structures are wrong or that they don't serve a purpose. Each and every one is, I am sure, pleasing and meaningful to its developers. This is a reflection of the scripture which tells us that the way of a man seems right in his own eyes. The point, the problem, lies in the diversity itself and in the difficulty this adds to tracking through the process and in relating one event to another. Each committee, each office, feels it has an inalienable right to its own structure and everybody else can just conform to their way if they want things to look the same. Confusion reigns supreme. When you reflect on it, it is hard to believe that we try to formulate the budget for our federal government in such a fashion.

The solution we propose has two parts. The first is a new requirement that the President's budget include a Budget Accounts Listing and that before making any changes in the Listing from one release to another, that there be consultation with the Budget Committees, the Appropriations Committees, and the authorizing committees with legislative jurisdiction over the programs funded through the accounts to be changed. Just to get things started I propose that the Budget Accounts Listing in the fiscal year 1983 Budget be used as the base. I imagine that this provision will have to be modified when the fiscal year 1984 budget comes out. We will probably want to make that the base, but right now the 1983 Budget Accounts Listing is the latest one we have. This approach reflects the advice of Thomas Jefferson who wrote the following comment on the necessity of rules in his "Manual of Parliamentary Practice:"

"And whether these forms be in all cases the most rational or not is really not of so great importance. It is much more material that there should be a rule to go by than what that rule is; that there may be a uniformity of proceeding . . . not subject to caprice . . ."

The second part of our proposal is even more simple. It is that the Congress be required to use the Budget Accounts Listing set forth in the President's budget. Tables in appropriations bills would have to show the same accounts as the President's budget. CBO projections would have to use them. Reports accompanying the first and second budget resolutions would have to include them, even though these would not be binding but would merely indicate the Budget Committees' assumptions. Views and Estimates Reports would have to include this level of detail, as would reports of the allocations of budget resolution totals. Spending measures reported by authorizing committees would have to include such tables too for the accounts affected by the measures, thus providing a basis for ready comparison between committees' allocation reports and their legislation. This alone could save the Senate hours of floor time by eliminating disputes over whether a level of spending was or was not assumed in the budget resolution and included in the allocations.

Within these constraints the President would be allowed to include new accounts in his budget, without prior consultation, solely for purposes of presenting new programs. This would preserve the prerogatives of the President to protect the confidentiality of his proposals until he is ready to release them. I think that we could live with that amount of surprise quite well. And committees would be allowed to include new accounts for the same purpose, but in this case, some central authority is needed to ensure consistency within the structure. I propose the Congressional Budget Office for this responsibility.

Mr. Chairman, it is hard to overstate the benefits that would flow from our beginning to speak a common language and being able to understand each other. This could be a significant step toward achieving a truly integrated budget decision system, something we can now only pretend to have.

IV. COMMITTEE OVERSIGHT

The fourth major part of the bill S. 2864 is an amendment to Section 136 of the Legislative Reorganization Act of 1946 (as amended by the Legislative Reorganization Act of 1970 and the Congressional Budget and Impoundment Control Act of 1974) which deals with requirements for committees to review programs within their jurisdiction. Section 136 now requires that committees report to their respective houses by March 31 of the first session on their review activities in the preceding Congress. This is too late to be useful to the committees. In S. 2864, the reporting date is moved up to October 1 of the second session so that the results are available at the start of the first session of the next Congress, which is devoted to program reauthorizations. Authorizing committees should be able to use most of the second session for these reviews and to use the reviews in their reauthorization work in the first session of the following Congress.

A synopsis of the provisions under this heading is set forth below:

Amends Section 136(a) of the Legislative Reorganization Act of 1946 (as amended by the Legislative Reorganization Act of 1970 and the Congressional Budget Act of 1974) to—

1. Provide that committees should begin conducting reviews and studies of programs on January 15 of each first session and report their findings and conclusions to their respective houses by October 1 of the second session.

2. Provide that these reviews and studies should constitute the basis for a committee's legislative work during the succeeding Congress.

3. Authorize chairmen and ranking minority members to request information and assistance from heads of agencies in conducting such reviews, including the final budget recommendations and justifications submitted by agencies to OMB.

4. Authorize chairmen and ranking minority members to request the Comptroller General to provide summaries of any audits of reviews conducted by the GAO in the past 6 years regarding programs being studied by committees.

5. Authorize chairmen and ranking minority members to request assistance from legislative staff agencies in conducting reviews and studies of programs.

6. Clarify that chairmen and ranking minority members may request information for such studies and reviews to be provided on computer tape and that agencies are not required to charge a fee when information is provided in this fashion.

7. Clarify that the study and reporting requirement does not require the public disclosure of national security information or other information the disclosure of which is protected by law.

Mr. Chairman, this represents a reasonably full description of S. 2864. I believe the bill proposes constructive changes which are sensible, fair, and desirable. I urge the Task Force to give these proposals careful and serious attention.

In conclusion Mr. Chairman, let me share with you one of the aspects of my interest in this subject. I realize that the Committee on Governmental Affairs in the Senate and the Committee on Government Operations in the House are concerned with the integrity of the budget and accounting procedures of the United States Government; that is a major part of the jurisdiction of those Committees. And the Budget Committees, which have adopted the role of "budget watchdogs" are concerned with finding effective tools to reduce or hold down spending. While I recognize and appreciate the importance of those subjects and share those same concerns, my own focus tends to be through the lens of the Ranking Minority Member of the Senate Committee on Rules and Administration where we are concerned with the integrity of the legislative process generally and the continued vitality of the Congress of the United States as the means through which public policy is debated and formulated. The conerns which we reflect might not always be the same as the concerns of those whose focus is on budget and accounting procedures or of others who have an operation responsibility to be the budget watchdogs. We will be especially interested in specific provisions of the Budget Act which have been used in ways that were never intended and which have tended to run counter to the interests that we all have in adequate consideration of major questions of public policy.

Mr. BEILENSON. Thank you very much, Senator.

Let us again express our appreciation for your taking time out from your very busy schedule and coming over to testify. We certainly shall take a very close look at your bill.

Obviously, in terms of whatever changes we come up with next year we shall have to work very closely with your body and we appreciate very much your sharing your thoughts with us.

Let me just ask one general question prior to asking other members of our task force whether they have questions to ask.

I myself, and I think many of our colleagues here, share your general feeling that it would be useful in many ways to go to a biennial budgeting process.

There are a couple of major problems as I see it. One is that it will probably stir up additional opposition to whatever changes in the budget process we propose. Along with asking for what might be minor procedural changes we are also asking committees to start behaving in a way different from the way they behaved in the past, so that appropriations people, for example, and maybe some of the authorizations people, will have additional excuses for not agreeing to some necessary changes in the budget process.

That is, the simpler, more marginal changes we propose would be the easiest to get through and this might be asking an awful lot.

The second question that comes to mind is that it may be awfully difficult if you have a biennial budget process to have the flexibility needed to deal with economic change or just changes in opinion amongst the members as to spending priorities.

One can foresee an awful lot of supplemental appropriations bills or perhaps subsequent budget resolutions after adopting a binding first budget resolution early in the first year of the process.

Does that appear to be a problem to you?

Senator **Ford**. Mr. Chairman, to answer your first question, I have always understood you have to give up something to get something. In order to accomplish something that is new, I think we are going to have to give up some of our old practices, but I think those are items that are creating problems for us.

Let me give you an example of what you might be calling on some of the committees to do on our side. I am not attempting to tell you what to do on your side at all but on our side.

I was chairman of the Commerce Committee's Consumer Subcommittee. We reauthorized FTC. On the Senate side, I insisted that we put in that authorization bill that we have two oversight hearings a year on FTC. One, in the first part of the fiscal year, was to get their thoughts and views on where they were going on employees, expenditure of funds, et cetera, and then, about 6 months later, to have them come back and let us know where they had gone in that 6 months based on what they had wanted to do, how much money they had spent, and what was available then for the last 6 months and where they intended to go—new rules, regulations, inspections, complaints—and try to understand what the 900 lawyers were doing down at the FTC.

I was laughed at by some of my senior colleagues a little bit. "Ford," they said, "you are just asking for more work. You will get enough work without asking for it." And I said, "fine, but I want that."

We actually wound up that day asking for six oversight hearings of the FTC. We have mandated that many oversight actions on our side now. We find that we know more now about the Federal Trade Commission than we did the previous year or the year before.

If we have a little more time, we can look at other agencies like we are mandated to look at FTC by the Consumer Subcommittee. If we stretch the budget cycle out we will have the time. I think that the opportunity for changes that you might want because of changed economic conditions and built into our piece of legislation. You have the opportunity in a very easy way through the supplemental process to make a better judgment because you have stretched out your budgetary cycle to 24 months rather than the 12-month period.

You will have had an opportunity through oversight to look at agencies and thus be in a better position to know where to reduce or expand because you know how they are spending the money.

I don't think, once the cycle is triggered in, I don't think you will have any problems. In fact, I think they will be lessened somewhat by a 2-year budget.

Mr. **Beilenson**. Thank you.

Mr. Rhodes?

Mr. **Rhodes**. Thank you.

Senator Ford, it is a real pleasure to have you over here to give us your wisdom.

Senator **Ford**. I don't have much wisdom but whatever there is isn't going to cost you very much.

Mr. **Rhodes**. Well, it is worth more than what it costs then.

Senator **Ford**. Thank you.

Mr. **Rhodes**. Also, you mentioned Senator Quayle, of course, who was a member of this body and a good friend.

Senator **Ford**. He is also a member, if I might interject, Congressman, of the Budget Committee and he has been going through that process now since he has been a member of our side of the building, and he sees that change needs to be made. He has brought some of your good qualities from this side over to the Senate side.

We hopefully have put my experience as Governor on a 2-year cycle together, and we think we have come up with a reasonably good bill.

Mr. **Rhodes**. Well, I think you have got some very good points here. As the chairman said, we seem to be more and more leaning toward the 2-year cycle and I personally think that it will work.

It may have some problems getting started but growing pains are a lot better than contracting pains usually.

Let me ask you this. I happen to have been on the original committee that got this congressional budget process underway and I was pleased at seeing the kind words that you had for the system as it was finally evolved.

It was far from perfect and we knew it wasn't perfect and I think it is now time to have a major overhaul of it.

What about these two situations? One is, I have always felt that something had to happen on May 15. If you don't adopt a first and concurrent budget resolution on May 15 it holds up the whole appropriations process and I think that would probably still be valid even if we had the 2-year cycle.

You have got to get started sometime and the idea which I had then and which I bring forth every now and then and kick around is that there would be, on May 15, either the House and Senate would have adopted the first concurrent budget resolution or the President's budget as submitted would become the congressional budget also.

And I am wondering if you have any thoughts along those lines.

Senator **Ford**. What we do here and we have changed the schedule some, in order to give us more time, is that on June 15 the first budget resolution would be reported. The first budget resolution would be agreed to by July 31, and then on September 15, the committees will report their allocations of the first resolution amounts. This is all in the first session. By December 1, congressional action will be completed on authorizing legislation for the 2-year budget.

In the second session, the President's revisions to his recommendation of the previous year would be submitted by January 15; CBO reports are submitted to the budget committees; spending bills are reported by House Committee on Appropriations by March 3, and, by April 15, spending bills are to be reported by the Senate Committee on Appropriations.

The second budget resolution would be reported by June 15. By July 15, the spending bills would be agreed to. And by August 1, the second budget resolution is to be agreed to. Under our schedule, by September 25 action is to be completed on a reconciliation bill or resolution and all spending bills enrolled. October 1, would start a 2-year budget period and the committees would begin to report findings and conclusions from their oversight review and studies of the Federal programs.

Mr. **Rhodes**. That is a good idea. The schedules are great but you and I both know that there is no way we can make the Senate and the House act at a certain time.

You can find yourself with a filibuster over there and there is no way that you can keep a schedule.

So what I was trying to accomplish was sort of a hammer over the heads of both bodies that if you don't act by a certain period of time something happens and that thing that happens is that automatically the President's budget becomes the congressional budget.

Now, of course as we know by action of both bodies, we can change that. If we don't like the President's budget later on you can change it but at least it gives a basis upon which the Appropriations Committees can then proceed with their 302(b) divisions and get to work.

The logjam that we have here is caused by the fact that we just don't get the budget resolution done in time.

Senator **Ford**. I see a flaw there. Let's say the balanced budget amendment passes.

Mr. **Rhodes**. That is a flaw in itself.

Senator **Ford**. I understand that. I am not for it, and I am one of the few that voted against it.

Mr. **Rhodes**. Well, with a 6-year term you can afford it.

Senator **Ford**. But lets say that the President submitted a budget that was way over on the deficit side and you say that triggers in and we have then a larger deficit than the Congress would be shooting for, that is, shooting toward a balanced budget. And if we get into a filibuster on the other side if there are a lot of funds in there for social programs. I think you need to think that one through very carefully.

You say the President's budget should prevail but with a cap of the previous fiscal year's amount. That could be worked in.

But I wouldn't want to just say that we throw out a Democrat or a Republican Presidential budget and say, "that is it," if we in Congress don't come up with an alternative budget by a certain time. It might be better to let the cap of the previous year prevail.

Mr. **Rhodes**. If you don't like the figures in the President's budget you can always take care of it by not appropriating that much.

Mr. **Beilenson**. If they are too high. Not if they are too low.

Mr. **Rhodes**. I am dreaming.

Well, may I now ask you another question? You also had a thought of not enrolling any of the appropriations bills until all of them have been adopted. I happen to like that approach because I have always been afraid that if the appropriations bills that come first are adopted over the budget, the last one to be adopted takes the brunt.

Senator **Ford**. I agree. We have to arrive at a consensus and we have some emotional bills on the front end. They may have received some additional funding. We have to get under a certain cap and then we derail some of our good programs and they are short on money.

It gets back to a point that I made earlier.

I found the 2-year budget cycle was important because we could give the communities in our State some lead time.

For instance, let's just take airport construction. We budgeted in the first year of our budget the 25 percent to Y city.

In the second year we budgeted our 25-percent State money to Y city. They knew within a 24-month period or 13 months, really, that that money would be available. The Federal Government had approved their portion of that and the city knew what was coming. They could go ahead and make their plans and go ahead with their construction without being rushed. We gave them an opportunity to plan. Some of our cities and States now are using funds from other places to take care of programs that we haven't completed.

We are going now from October 1 to December 15. They have a couple of months, you know, to plan and then on December 15 we may change that, up it or probably cut it. So they are facing reduction of funds. There is no long range planning. Some go to the bank and borrow money, pay the interest rate on it. Whatever funds they have are diluted by that amount.

So I think our dollars would go much further if they have the ability to plan.

Mr. RHODES. Thank you, Mr. Chairman.

Mr. BEILENSON. Mr. Frost?

Mr. FROST. No questions.

Mr. BEILENSON. Senator, again we thank you very, very much for coming over and sharing your ideas with us.

Senator FORD. I have a complete statement here. I hope that you all would read it. I am convinced that with longer time to think and plan and set standards and to apply those standards against our various agencies, we can do a better job.

There is a lot of wonderful, strong, and innovative brainpower in Congress. We just don't have the time to use it. And I think it is a loss to the American people the that brainpower within this Congress is not used to its ultimate.

Mr. BEILENSON. I think we agree very strongly. We obviously need more time to do all sorts of useful things including, as you pointed out, the oversight function that is so necessary for us to control expenditures and insure that money is spent in the wisest possible manner.

Senator FORD. It gives you a greater opportunity if you have to make a change. You are in a better posture to make a change based on oversight than if you have to make a knee-jerk jump.

Mr. BEILENSON. Yes.

Senator FORD. I thank the chairman.

Mr. BEILENSON. Thank you so very much, sir.

We are pleased to have as our third and final witness this morning the gentleman from New Mexico, Senator Pete Domenici, who is, as you all know, of course, chairman of the Senate Budget Committee, which is, of course, primarily responsible for the Budget Act.

If I may just say so personally, Senator—I am sure I speak for all of the members here—I think it is fair to say that you have had a very difficult year and you have done an impressive job over there with the budget and it is due to you as much as anyone else that we survived and will survive another very difficult year this year.

We are delighted to see you today and we look forward to hearing your testimony.

STATEMENT OF HON. PETE V. DOMENICI, A U.S. SENATOR FROM THE STATE OF NEW MEXICO

Senator **Domenici**. Thank you very much, Mr. Chairman, and members of the committee. We are voting in the Senate so somebody will be watching the phone.

Mr. **Beilenson**. We already let you vote once a little bit earlier.

Senator **Domenici**. That was a close vote.

Clinch River won by one vote so that was an important vote.

Mr. Chairman, I was thinking on the way over here that about 10 days ago I sat down and prepared a speech that I called "Seven Deadly Misconceptions" about the budget process.

I didn't bring it with me. I would like to ask your permission to make it a part of the record. We will send it over here shortly.

Mr. **Beilenson**. Please do. We will be glad to include your detailed statement and the additional material entirely in the record, thank you very much.

Mr. **Rhodes**. I am surprised there are only seven.

Senator **Domenici**. Well, I think there are probably many more.

I hope you will find the speech interesting. In it I try to outline the myths versus the realities about this process. Like the scope of your hearing, the speech is not just focused on that technical law called the Congressional Budget and Impoundment Control Act of 1974 but, rather, on the broader dimension of the budget process.

In the Senate, the Budget Committee and the Committee on Government Affairs share jurisdiction over the Budget Act and both of these committees have held hearings this year on possible changes to that act.

In the Budget Committee we have completed 4 days of hearings. I am pleased that a similar review is taking place in the House as well.

You have made my detailed prepared statement a part of the record. In that statement I outline my current thoughts on issues which we asked the witnesses at our recent hearings to address.

I want to stress that the views I express in that statement are preliminary ones. I will refine my thinking as we proceed with our study of possible changes to the Budget Act.

In my remarks here this morning, I would like to focus on some serious misperceptions about the budget process and recent congressional experience.

I am concerned that these misperceptions may hinder the type of constructive examination of the Budget Act that needs to be made.

The first misperception I would like to discuss is the charge that the budget process is causing a breakdown in congressional decisionmaking. The budget process is being blamed for everything from failure of committees to conduct oversight hearings to delays in appropriations bills.

I am convinced that most of the problems Congress has in getting its work done are the result of factors other than the time used by the budget process.

Indeed, the budget process has been at the center of some of the major legislative accomplishments of the past 3 years. But the budget resolutions and the reconciliation bills did not use up all the available time.

I am afraid some of the critics of the budget process are making it the whipping boy for problems that are of longstanding and are only marginally related to the budget process.

Your own Appropriations Committee chairman indicated on the floor that delay in passing the budget resolution created the conditions that produced omnibus continuing resolution this year. Obviously, I don't question his right to criticize the budget process, but I must respectfully point out that the first budget resolution for fiscal year 1983 was approved on June 23—only the second time in 8 years that final approval of the first resolution was more than a week past the May 15 deadline.

I would cite for the record that in 1980 the first budget resolution was passed on June 12, compared with June 23 this year, and in 1980 the House passed 12 of the appropriation bills by September 29. And that year had some other very difficult features, too. For example, the President of the United States that year sent two different budgets to the Congress. That too, affected targets and timetables and the appropriators' ability to get things done in an orderly way.

My arithmetic says that there will be this year about a 5-week delay beyond the original date in getting a budget resolution approved. I really can't agree that 5 weeks is enough to cause there to be an omnibus continuing resolution which covers the bulk of Federal programs and activities.

I think a fair judgment on the budget process would be that in recent years it has played a relatively minor role in holding up appropriations bills.

Speaking from the Senate point of view, we have an enormous problem of authorizing legislation of an extremely controversial nature being brought up on the floor as riders to appropriation bills.

So what we have had are all of those tickly and controversial issues, abortion, busing, school prayer, congressional pay. They have all found themselves affixed in one of the last 7 or 8 years to an appropriation bill causing extensive debate in the Senate and long conferences with the House—sometimes 3 or 4 weeks on just the abortion issue.

And, incidentally, we have a GAO summary reporting that they have checked the record and tried to draw conclusions over the past few years as to what delayed appropriations.

So I conclude that it is not the budget that is causing slippage in the appropriation process.

Indeed the budget process is not the only train that should be running on a congressional track. I don't think we can allow reconciliation to become perceived as the only vehicle that we have for getting things done.

In addition to examining carefully problems in the budget process, I am convinced we need to make sure some of the other legislative processes bear their appropriate share of the burden of getting decisions made in both Houses of Congress.

What could be done to raise the priority given to the oversight and legislative work of authorizing committees?

How could we unjam the appropriations process so that funds are appropriated in a reasonably orderly manner?

How can we assure that tax expenditures and other aspects of revenue policy are reviewed systematically and revised when appropriate?

These are some of the broader process issues that need to be examined.

What I am trying to say to you is let's don't start from the assumption that the budget process, narrowly defined, is the only problem area Congress has. These institutions have serious procedural problems which the budget process did not cause and cannot be expected to solve.

Of course, we should refine and improve the budget process itself. But the budget process, in my view, is helping make an otherwise intolerable set of problems moderately manageable. Let's improve it where we can but let's examine other processes and improve them, too.

The second misperception I want to discuss relates to the 1981 experience with reconciliation. Many who did not like last year's substantive outcome, when Congress cut spending drastically for the first time, have been spreading the myth that the reconciliation procedures were somehow "twisted" and "misused" to "tyrannize" the Congress into doing things it did not want to do. To me that argument is simply untrue.

A majority of Members of both the House of Representatives and the Senate voted for last year's reconciliation instruction and for the resultant reconciliation bill. The hallowed procedures of both bodies were not destroyed. The rules of both bodies were followed.

The fact that the reconciliation bill turned out to be a bigger and more drastic set of changes than some people wanted to see is not an indication that there was something wrong with the procedures used.

The reality is that the Congress and the American people wanted to make policy changes last year and used an available legislative vehicle—called reconciliation—to achieve those changes.

The notion that the procedures were at fault is sour grapes. The truth is that one side won and one side lost. That is most often the way Congress makes decisions.

The third misperception I want to discuss is the view that the budget process is undermining the role of other committees and that the Budget Committees are becoming all-powerful.

Somehow, this misperception seems to always get back to the allegation that we did something unseemly last year when the reconciliation instructions required the authorizing committees to modify authorizations in order to produce savings in appropriated programs. The perception that there was something fundamentally wrong with that just amazes me.

I can understand why the Appropriations Committee members might not be too happy with that approach because it reduced the flexibility of appropriations to funnel resources to favorite programs. I do not understand why people who serve on the authorizing committees are upset about it.

If there is a message to be drawn from recent congressional experience, it is that the authorizing committees of both bodies need to be involved more in the process of setting priorities. Anything we could do to achieve that would be a step in the right direction.

There are plenty of problems between the authorizing and appropriations processes and I don't think the budget process has very much to do with that.

Mr. Chairman and members of the committee, there are many suggestions for improving the budget process. You have heard most of them.

There is a growing sentiment in the U.S. Senate--I don't know about the House—that we should go to 2-year budgeting and 2-year appropriations.

I trust that you will look at that carefully. That is a very large step.

My own conclusion at this point is that it would be advisable to look at the appropriations process and see what accounts could most readily be put in 2-year appropriation bills.

My own guess is that fully 60 percent of the accounts could very easily be appropriated for 2 years at a time. They have only marginal economic impact, and they don't change much from year to year.

I think that in itself could be a useful first step in decongesting the appropriations process.

Beyond that I have some caveats on a 2-year cycle. There is nothing that affects the American budget more than economics and the economic assumptions that are made in the budget.

It is difficult in this day and age to have any confidence in economic assumption. Therefore making spending decisions for the 2 years at a time would merely tend to magnify errors in the assumptions.

So I am not opposed to the 2-year approach but neither do I think it should be looked at as a panacea. Would the authorizing committees really work for a full year on oversight and changes in authorizing laws if we moved all appropriations into alternate years?

You all can answer that for yourselves. If you schedule that work in the second year of a Congress, there would be great difficulty in moving legislation through a year close to an election, it seems to me it would be second fiddle. Conversely, if you put it up front in the first of 2 years and put the appropriations down to the second year, the year before the election you have got the exact opposite psychology. You may get appropriations in spades. In other words, a 2-year cycle may not produce the kind of results most of us would want.

I will close with that and be delighted to answer any questions you might have.

Thank you, Mr. Chairman.

[Senator Domenici's prepared statement, with additional material referred to, follow:]

PREPARED STATEMENT OF HON. PETE V. DOMENICI, A U.S. SENATOR FROM THE STATE OF NEW MEXICO

Mr. Chairman, I am extremely pleased to be invited to this hearing and to share with you my thoughts on proposed changes to the Budget Act. The Senate Budget Committee shares jurisdiction over the Budget Act with the Governmental Affairs Committee in the Senate. Therefore, we share with the House Rules Committee the responsibility for identifying and examining ways of improving the Budget Act and the budget process.

The Senate Budget Committee last week completed a series of four hearings on possible changes to the Budget Act. Witnesses from within the Congress and from outside testified at these hearings. They presented many constructive suggestions.

We sent to the invited witnesses a set of questions that we thought it important to address. Today, I will go over this list with you and let you know my tentative answers to these questions based both on the testimony we received and on my personal experience with the Budget Act.

We asked the witnesses testifying before the Budget Committee to address the following five subject areas—enforcement of budget and fiscal decisions, the budget cycle, impoundment control, range of fiscal controls, and implementation of a possible balanced budget constitutional amendment. I will submit our list of questions for your record and will speak briefly on my current thinking in each of the five areas.

ENFORCEMENT

The first topic area, the question of enforcement, is one of the most important. Congress will not have an effective budget process unless it implements the budget plans it approves. If the targets, ceilings, and floors set in budget resolutions are routinely set aside or ignored, the process will become ineffective.

The biggest change I see needed in the enforcement area is the creation of points-of-order against bills which exceed committee or subcommittee allocations. The present point-of-order against bills that exceed the budget aggregates is simply too-little, too late for effective enforcement. This penalizes the last bills to be considered for excesses of earlier legislation. Frequently, bills considered late in a fiscal year involve "must" spending, which gives Congress little lee-way to stop or reduce.

Two years ago, I proposed (in S. 2471) points-of-order against bills that violated functional totals. I now believe that points-of-order should be tied to committee and subcommittee allocations.

Reconciliation is the most effective enforcement tool Congress has under the Budget Act. Without reconciliation I doubt that Congress would have been able to pass during the last three years the spending restraint measures that the majority of Congress and the majority of the American people felt urgently needed. I doubt that the 1982 Tax Equity and Fiscal Responsibilty Act—an act praised by many students of tax policy—would have been enacted without reconciliation.

I am not about to argue, however, that reconciliation has worked perfectly or that it can't be improved. The reconciliation process as it has been used in the past two years may not give committees enough time in every case to consider where to best make program cuts, although most of the cuts the past two years have been recommeded for years and years by a variety of experts. We have had problems with extraneous material and reauathorizations that do not save money. I believe that only provisions that save money should be provided the procedural protections of a Reconciliation Act. This is perhaps a larger issue in the Senate than in the House because we have an unlimited debate tradition which is drastically modified by reconciliation procedures.

BUDGET CYCLE

The second area of concern—problems with the budget cycle and especially the problem of missed deadlines—was brought up by almost all of the witnesses at the Budget Committee hearings. Several bills have been introduced in the Senate to institute a biennial budget cycle. Although I have expressed interest in the concept of a two year cycle, I now believe that we should move slowly on this idea and perhaps try it out in some type of pilot test before we consider instituting it across the board.

The budget process now contains many "action forcing mechanisms", to use Senator Muskie's phrase, and this is good. Budget decisions, especially when they involve cutting popular programs, are never easy. Congress needs the constant pressure of deadlines to enable it to make these decisions.

Another reservation I have about a biennial budget cycle is that I fear that, instead of de-congesting the Congressional calendar, the calendar might be filled even more than it now is with supplemental appropriations, revisions of budget resolutions and other "corrective actions."

Many of the current proposals to institute a biennial budget would have authorizing legislation taken up in the first year of a Congress and a binding budget resolution, appropriations and reconciliation in the second year of a cycle. That would mean that a new President and Congress would be forced to wait a year and a half before they could make major changes in spending. I doubt that we could have achieved the savings effected by the Omnibus Reconciliation Act of 1981 if we had waited more than a year after the 1980 election.

Although I do have these reservations about a biennial budget cycle, I think a great deal can be done to de-congest the Congressional calendar. Certainly more authorizations can be placed on a 2-year cycle. Many programs are already authorized for two years or more.

I think we should also see whether the Executive Branch and Appropriations Committees would be willing to fund at least some programs for longer periods of time. It is clear that this would work only if the President requested longer term funding as part of his budget submissions.

To facilitate movement toward 2-year appropriations, we would need to work out a way of dealing with section 303 of the Budget Act. That section creates a point-of-order before adoption of the First Budget Resolution for a fiscal year against bills providing new budget authority for that year. The Budget Act provides a Section 303 waiver procedure for the Senate and I understand the Rules Committee can recommend waivers in the House. Nevertheless, we may want to do something in future budget resolutions to encourage longer term appropriations.

One interim procedural change introduced this year was an important step toward decongesting the Congressional Calendar. I am talking about the provision for the First Budget Resolution for fiscal year 1983 to become automatically the Second Resolution if Congress has not adopted a second resolution by October 1, 1982. I believe this will prove to have been one of the most significant innovations in the budget process.

I am hopeful that the First Budget Resolution could be adopted earlier in the year to provide more time for considering authorization and appropriations bills. Again, no change in existing law is necessary to make this change. I intend to work with Chairman Jones and see if we can't agree to report the budget resolution by March 15 and pass it by April 15, a month ahead of schedule. This additional month would allow authorizing committees more time to respond to reconciliation instructions and would give the Appropriations Committees more time to develop their bills and get them considered in the two Houses.

This change would, or course, require the cooperation of the various other committees who would need to send their comments and recommendations to the Budget Committees earlier than March 15. This could be a special problem in the first year of a new Congress. I believe, however, that the other committees would generally be supportive of this change.

CONTROL OF ENTITLEMENTS

I would like to turn now to another important area of concern—that of controlling entitlements. Entitlements are the fastest-growing area of spending and the area which Congress has the most difficulty controlling. We have already used reconciliation effectively to reduce growth of entitlement costs. But we need additional tools.

Two ideas that could help Congress gain control of entitlements deserve careful study. The first would be to change the way in which cost-of-living adjustments in federal pensions and other programs are determined. A procedure similar to that used for Federal pay raises could be established: The President would determine what increase in entitlement cost-of-living adjustment should be made, subject to Congressional override. This procedure would force the President and Congress to face up annually to the tremendous cost of COLA's.

The second idea would be to provide for sunsetting of many entitlement programs. If Congress were required to reconsider entitlements every few years, rather than allowing them to continue indefinitely, it would most likely find ways of limiting the growth of costs.

While I am not ready to endorse either of these ideas right now, I do believe they merit careful examination.

EXPANDED BUDGET COVERAGE

The fourth issue I want to discuss is the scope—the extent of coverage—of Congressional budget resolutions. As we all know, a great deal of federal activity is not reflected in the budget. About $20 billion a year in federal spending is excluded from the budget. This spending must be financed by Treasury borrowing, however, and one of every $5 of the increase in the public debt since 1973 has been to finance off-budget expenditures.

I believe that all spending should be reflected in the budget even though this would cause the official budget deficits to be larger. We could bring nearly all off-budget spending on budget by eliminating the off-budget status of the Federal Financing Bank. I am not sure whether the best approach would be to do this through amendments to the Budget Act. It might be preferable to amend the Federal Financing Bank Act, which is under the jurisdiction of the Banking Committees of the Senate and the House. I intend to discuss the issue with interested Senators in the near future to get a better idea of the most appropriate way to proceed.

I also feel strongly that the budget process should provide stronger tools for limiting federal credit activities. We are trying out as part of the First Budget Resolution this year new procedures that provide points of order against legislation that breaches the credit ceilings established by the Second Budget Resolution and against legislation that authorizes new loans or loan guarantees without requiring appropriations control. I think these new procedures are working well on a trial basis, and I hope this experience will help us determine specific changes that can usefully be made to the Budget Act.

A report will be issued shortly by the Senate Budget Committee containing the results of a study made by our Temporary Task Force on Federal Credit Activities. Senators Gorton, Metzenbaum and others worked for a long period studying various methods for increasing Congressional control of credit. I hope your Task Force will also consider the findings and recommendations in that Senate report.

I also believe we should re-examine the accounting treatment of revolving funds. At present revolving funds are accounting for on a "net" rather than a "gross" basis. In fiscal year 1981, for example, $49 billion in outlays did not show up in the budget at all because they were "offset" or "netted out" by an equivalent amount of payments from the public credited to revolving funds. This accounting treatment effectively hides the "netted out" outlays and understates the government's role in the economy. Again I am not sure of the best way to tackle this problem, but believe our present approach could increase pressures for even more revolving funds should a spending limitation constitutional amendment or law be enacted.

IMPLICATIONS OF BALANCED BUDGET CONSTITUTIONAL AMENDMENT

The final area that I wish to discuss with you today relates to the possibility that the Constitution may be amended to require that the Federal budget be balanced and to limit growth of Federal receipts. Regardless of whether the Amendment currently pending passes the House and is ratified by the states, public opinion and a majority of both Houses of Congress are clearly on record in support of balancing the budget. My concern is that it is easy to be strongly in favor of a balanced budget, while it is very difficult to achieve one.

Nothing we do to the Constitution or to the Budget process will guarantee that Congress will produce a balanced budget as we now define it. The problem of getting a balanced budget is not primarily a procedural one. It is in large part a problem of political will. It is partly a problem of economics. But, I do think procedures can sometimes help stiffen backbones. Our experiences with reconciliation show that this is true. So we need to look for procedural improvements that will help Congress achieve the goal of a balanced budget.

I think for example, that we should seriously consider legislation that would provide a transition "glide path" from our current deficits to a balanced budget. For example, we might require a super majority vote in order to have deficits exceeding specified amounts—say a $50 billion deficit in fiscal year 1985 and $25 billion deficit in fiscal year 1986.

Experimenting with various means to reach a balanced budget will help to "debug" procedures so that, if the Balanced Budget Amendment becomes part of the Constitution, the Congress will have the procedural tools in place to implement it. If

Congress does not start to develop these tools now, we will have great difficulty in implementing a Constitutional Amendment to Balance the Budget.

CONCLUSION

The bottom line for me is that the Budget Act is basically sound. It needs some adjustments and refinements but we certainly should not junk the budget process and start over. I am somewhat concerned that some critics of the process—especially some in the House of Representatives—would like the budget process to go away. That must not become the objective in examining possible changes in the Act.

Issues To Be Examined in Hearings by Senate Budget Committee on Congressional Budget and Impoundment Control Act of 1974

ENFORCEMENT OF BUDGET AND FISCAL DECISIONS

Should a point-of-order be provided against bills which exceed committee or subcommittee allocations? Should foreseeable later requirements be counted in determining whether appropriation bills create budget problems?

What change if any should be made in existing reconciliation procedures? Should greater flexibility be provided for Floor Amendments to reconciliation bills? (For example, should amendments be in order which are non-germane to material in a reconciliation bill, but which would save money in programs under the jurisdiction of committees receiving reconciliation instructions?)

BUDGET CYCLE

Should any changes be made in the present annual Congressional budget timetable to better reflect the work patterns of Congress?

Should the requirement for a Second Budget Resolution in the Fall of the year be eliminated? If so, what provisions should be made in the Budget Act for updating of Budget resolutions?

Should the Federal fiscal year be made concurrent with the calendar year?

Should Congress adopt a 2-year Budget Authorization and Appropriation cycle as has been proposed by several members of Congress? If a 2-year cycle became a reality, what would be the best sequencing of budget resolutions, authorization and appropriation bills? If a 2-year cycle were adopted how could flexibility for mid-course corrections be provided? Would a 2-year cycle inhibit the ability of a new President to implement the platform on which he was elected?

IMPOUNDMENT CONTROL

What changes if any should be made in Title X of the Budget Act to enable Congress and the President to keep actual outlays from exceeding those provided for in approved budgets?

Should Congress establish a procedure for limiting growth of entitlement programs similar to that used for Federal pay raises—Presidential determinations subject to Congressional over-ride?

RANGE OF FISCAL CONTROLS

What if anything should be done to expand the scope of Congressional budget resolutions? Do the provisions on Federal credit activities included in this year's First Budget Resolution provide a suitable approach for the longer term? What provisions relating to Federal Credit should be included in the Budget Act? Should off-budget spending be brought on budget? Should tax expenditures be specifically dealt with in budget resolutions? If so, how? Should any change be made in the budget treatment of revolving funds?

IMPLEMENTATION OF BALANCED BUDGET CONSTITUTIONAL AMENDMENT

A balanced budget Constitutional Amendment (S.J. Res. 58) was recently approved by the Senate. Assuming such an amendment is adopted by the Congress and submitted to the states for ratification, the following questions arise. The balanced budget amendment provides for the enactment of legislation to implement it. What changes in the Congressional Budget Act should be included in that implementing legislation? Should the legislation implementing the balanced budget amendment provide for the amendment's provisions to become effective before ratification by the states is complete so that the procedures can be tested and "debugged" by the time ratification is complete? Are any statutory transition provisions necessary—either during the intervening years or at the point of final ratification—to take account of the fact that the Federal budget is not now in balance and that deficits are predicted for the next several years?

[Additional material submitted for the record by Senator Pete V. Domenici follows:]

SEVEN DEADLY MISPERCEPTIONS ABOUT THE BUDGET

SPEECH BEFORE PUBLIC SECURITIES ASSOCIATION, PHOENIX, ARIZ., OCTOBER 12, 1982

(By U.S. Senator Pete V. Domenici)

Today, I'd like to do what I can to dispel some of the many misperceptions I have heard about the budget process. I realize that you are a sophisticated audience, but I'll bet even you will be surprised about some of the facts about the budget process.

Let's start with the basics. Misperception No. 1 is: The budget process is a shorthand way of referring to Congress's fiscal deliberations, including appropriations, authorizations, and tax writing. Although these three other processes are affected by the budget, they existed before the Budget Act was enacted in 1974 and are separate from the budget process.

The budget process is an extra step that Congress must work through. It determines to a large extent the budget aggregates—total outlays, budget authority, and revenues—but it does not determine how these totals will be accomplished.

For this reason, the budget committees of the House and Senate are something like a conscience—they affect the actions of Congress by setting limits, but they do not determine what Congress does within these limits.

To see how the budget process is different from the appropriations process, consider misperception No. 2: Congress votes each year on appropriations bills which determine the bulk of federal spending.

In fact, today, if you could persuade Congress to go home without passing a single spending bill, a full 60 percent of government spending would continue, for that much is entitlements. We're talking about such expenditures as military retirement, veterans programs, farm price supports, student loans, medicare, medicaid, social security, unemployment compensation, AFDC, and net interest—government monies that go to anyone who has a certain status, such as being retired or having low income.

These programs will continue to spend unless Congress takes action—appropriated programs, in contrast, must stop spending unless Congress takes action. Because they are on automatic pilot and are not dependent on annual appropriations, entitlements cannot be controlled through the annual appropriations process.

Congress, however, can use the budget process to control entitlements. This year, in fact, it made some major steps. For example, the budget committees, through a part of the budget process called reconciliation, issued mandatory instructions to certain committees of the House and Senate to save money in the entitlement programs they administer.

On the Senate side, the Finance Committee, which has jurisdiction over the major entitlement programs, was given one of these ultimatums and quickly produced almost $17 billion in savings—more than all the other committees produced through reconciliation. While the Budget Committee could not tell this committee exactly how it had to save all this money, we could be sure that it would somehow find some entitlement savings. Indeed, it reformed medicare and other entitlement programs to enact savings that will not inflict hardship on the needy. I predict that the reconciliation process will become more important as Congress begins to realize that entitlements cannot continue their unrestrained growth.

This leads us to misperception No. 3: Entitlements have stopped growing because of the austere budgets passed by Congress.

The truth is that we will be spending more on entitlements than ever before, even after all the difficult votes Congress took in this, an election year. But our achievement should not be belittled. Congress did slow down the rate of growth for many entitlements, so that the annual increases will be more reasonable. Between 1981 and 1985, if this year's budget plan is followed: medicaid will grow at a 9-percent annual rate, not 11 percent; medicare will grow at a 14-percent annual rate, not 16 percent; and federal retirement will grow at an 8-percent rate, not 11 percent.

There are still, however, significant increases in entitlements in the budget. In the same 4-year period, we are projecting that: social security will jump from $138 billion to $202 billion (46 percent); military retirement will jump from $13.7 billion to $18.1 billion (32 percent); and veterans compensation will jump from $8.4 billion to $12 billion (43 percent).

While we're examining entitlements, I can demonstrate the misconception about the budget process that is the hardest to kill, Misconception No. 4: When a program's funding is cut, spending for that program goes down from one year to the next.

Consider what happened this year with cost-of-living adjustments—COLAs—for civil service retirement. In fiscal year 1982, our federal government spent almost $20 billion on these COLA's. In the budget process this year, however, we made cuts totalling just under $2 billion over the next three years. In 1985, you might expect that these retirement COLAs would cost less than $20 billion.

In fact, even with all the cuts we made, the cost of these COLA's in 1985 is projected to be almost $26 billion, an increase of 31 percent from 1982. The same story could be told with military retirement COLA's or with almost any entitlement—despite our budget cuts, spending keeps growing.

How can this happen? When we start our budget deliberations for a fiscal year like 1983, we start with a "baseline" projection of spending. This is an estimate of federal spending based on the current situation—current laws, economic trends, beneficiary growth, and so forth. The baseline tells us what we would have to spend if Congress fails to take action.

When we cut the budget, then we are cutting from the baseline, not from the previous year's numbers. Thus, even a substantial cut from the baseline can allow a program to grows between 2 years. This makes any program difficult to control, and it is a major political obstacle to controlling entitlements.

Let's examine one significant entitlement—social security—which has become a political issue. Misconception No. 5 is: A certain political party wants to balance the budget on the backs of the elderly by cutting social security benefits.

Neither the Republicans nor the Democrats want to renege on the promises we have made to the elderly—and neither party is going to do it. On the other hand, responsible members of both parties are alarmed at the financial condition on the social security system and recognize that something must be done to keep it solvent. The retirement trust fund must borrow $1.3 billion this month, $2.4 billion next month, and more in December just to pay the 36 million beneficiaries on time.

Congress absolutely must act to bring its promises to retirees more in line with its ability to deliver on its promises.

Now let's put entitlements aside for a while and look at the big picture. Misperception No. 6 is that the congressional budget now in effect requires lowering the deficit $379 billion over the 3-year period starting with fiscal year 1983. This is part truth, part falsehood. Our budget resolution does indeed call for savings of this magnitude, but it does not provide any air-tight guarantees that all the savings will occur.

So far this year, Congress has passed two bills—the Tax Equity and Fiscal Responsibility Act and the Omnibus Budget Reconciliation Act—that cut future deficits $129 billion. In addition, the Congressional budget calls for savings of $87 billion in appropriated programs over the next 3 years—and Congress will almost certainly achieve this goal. So far, so good. But what about the rest of the deficit reductions?

Almost $108 billion comes from savings in interest payments that are assumed to occur as a result of the budget. Since interest rates have dropped, there is a good chance that these savings will materialize. But if interest rates should turn around, Congress has no way of enforcing these savings. The government must borrow to continue to operate, and those who lend their money to the Government must be paid interest at the going rate.

Management savings account for another $47 billion of the deficit reductions. Again, the executive branch appears to be making progress, but if it should fall short, Congress does not have any way to enforce these savings.

In short, while the Congressional budget calls for $379 billion in deficit reductions, a significant part of this total is not actually enforceable.

Misperception No. 7 is: The budget process reveals all federal government spending. In truth, over $20 billion a year in federal spending that is not in the budget must be financed by Treasury borrowing. Between 1973 and 1981, one out of every $5 of the increase in the public debt went for off-budget expenditures.

The largest off-budget entity is the Federal Financing Bank. This serves the useful purpose of centralizing the borrowing of many Federal agencies, but its off-budget status means that a significant amount of government spending remains outside the scrutiny of the budget process.

So there you have seven of the major misperceptions about the budget process. I hope I have helped clear the record about these issues. The truth is: (1) that the budget process does not directly include authorizations, appropriations, or taxes; (2) that appropriations bills do not cover the majority of the budget; (3) that entitlements are still growing; (4) that spending can be "cut" and still increase from year to year; (5) that social security benefits will not be cut; (6) that the budget alone does not guarantee a specific reduction in the deficit; and (7) that the budget does not include all federal spending.

By all this, I do not mean to suggest that the budget process has failed. On the contrary, it has been very successful in forcing Congress to establish its budget priorities and reduce the size of the deficit. Without the budget process, Congress would have a much more difficult time keeping its spending in line with its revenues, for it would have no institutional requirement to establish an overall budget or an acceptable deficit level.

The budget process compels Congress to make its political decisions explicit and thus allows for better control of our Nation's finances or, in other words, greater fiscal responsibility. In the future, I expect the budget process to continue to be a potent force for fiscal responsibility.

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-202135 December 17,1982

The Honorable Pete V. Domenici
Chairman, Committee on the Budget
United States Senate

Dear Mr. Chairman:

Subject: Updated Information Regarding Funding Gaps and Continuing Resolutions (GAO/PAD-83-13)

During your September 21 hearings on budget reform, you requested that we provide you with the instances and major reasons for continuing resolutions for the past 10 years. As you are aware, on September 22 we provided your Committee with information from two GAO reports on funding gaps that also discuss continuing resolutions in some depth. One of these reports, "Funding Gaps Jeopardize Federal Government Operations" (PAD-81-31, March 3, 1981), included data on the number of times funding gaps occurred and the major reasons for passing continuing resolutions from fiscal years 1962 through 1981. Your representative then asked us to (1) provide the Committee staff with an analysis of late enactment of appropriations both before and after the 1974 Budget Act was passed (see tables in the enclosure) and (2) update the report information by including both fiscal year 1982 information and reasons for the current situation.

Continuing resolutions have been used 78 times from fiscal year 1962 to the present. In fiscal year 1982, there was an impasse over the terms of the continuing resolution. In particular, its spending levels on social programs and foreign aid did not satisfy the President. This impasse caused a funding gap (one of two during this fiscal year) that in turn caused a partial shutdown of Government offices on November 23, 1981. In December, 9 of the 13 appropriations acts for fiscal year 1982 were passed, but agencies affected by 4 appropriations (Labor, HHS, and related agencies; legislative branch; State, Justice, Commerce, Judiciary, and related agencies; and Treasury, Postal, and Executive Office) operated on a continuing resolution for the entire fiscal year.

Since the continuing resolution for fiscal year 1983 was enacted the morning of October 2, this fiscal year also started with a funding gap. Only one appropriation bill had been signed into law before the start of fiscal year 1983, and again there was the possibility that serious disruption of Government operations could occur. The funding gap was caused by repeated delays

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and uncertainties in the budget and appropriations process that were beyond the control of any particular committee of the Congress. For instance, there was a heavy preadjournment workload that included debate on abortion, school prayer, and disagreement on riders.

The heavy workload that causes delays in funding stems in large part from a process that is unnecessarily repetitive, a structure and system that is unduly complex, and a level of decisionmaking that is inappropriately detailed. I think the current situation again demonstrates the need to reiterate the theme of my testimony before your Committee--the budget process needs to be simplified with an aim towards a balance among stability, control, and flexibility.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

Enclosure

Table 1*

Late Enactment of Appropriations Bills a/ Before and After the 1974 Budget Act (As of October 1982) b/

Appropriations c/	Late Enactment			
	Before Act		After Act d/	
	Total Number	Percent	Total Number	Percent
Agriculture and related agencies	15 of 15	100%	5 of 7	71%
Defense	15 of 15	100	5 of 7	71
Energy-Water (public works)	15 of 15	100	4 of 7	57
Foreign assistance and related programs	15 of 15	100	7 of 7	100
HUD and independent agencies e/	15 of 15	100	4 of 7	57
Interior and related agencies	12 of 15	80	5 of 7	71
Labor, HHS, and related agencies	15 of 15	100	6 of 7	86
Legislative branch	15 of 15	100	5 of 7	71
Military construction	15 of 15	100	4 of 7	57
State, Justice, Commerce, Judiciary, and related agencies	15 of 15	100	4 of 7	57
Transportation and related agencies f/	9 of 9	100	4 of 7	57
Treasury, Postal, and Executive Office	11 of 15	73	4 of 7	57
Government-wide Total	167 of 174		57 of 84	
Percent		96%		68%

Notes to Table 1

a/Late enactment after June 30 for fiscal years 1962-76 and after September 30 for subsequent fiscal years.

b/Only two appropriation bills, HUD and independent agencies and military construction, had been passed prior to adjournment. However, the President only signed HUD and independent agencies before the beginning of this fiscal year.

c/Appropriations categories based on structure supplied by the Department of the Treasury. Excludes the District of Columbia appropriations.

d/We have included 12 of the 13 FY 83 appropriations in this category because the earliest the Congress could act on these bills would be November 29, 1982, when they come back into session. There is a possibility that these bills may be passed later in the fiscal year, or not at all.

e/HUD funded as an independent agency prior to FY 67.

f/Transportation and related agencies' appropriation bill came into existence in FY 68.

*The figures in this table will vary from the table outlined in the GAO report entitled "Funding Gaps Jeopardize Government Operations" (PAD-81-31) March 3, 1981, because the information has been updated and adjusted based on further analysis.

Table 2*

Late Enactment of Appropriations Bills a/ Before the 1974 Budget Act (FY 1962-1976)

Appropriations b/	Late		Stratification of Late Appropriation Bills				
	Total Number	Percent	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months
Agriculture and related agencies	15 of 15	100%	1	5	9	—	—
Defense	15 of 15	100	—	4	8	3	—
Energy-Water (public works)	15 of 15	100	—	6	9	—	—
Foreign assistance and related programs	15 of 15	100	—	1	6	6	2
HUD and independent agencies c/	15 of 15	100	1	6	8	—	—
Interior and related agencies	12 of 15	80	4	5	3	—	—
Labor, HHS, and related agencies	15 of 15	100	—	5	6	3	1
Legislative branch	15 of 15	100	6	5	4	—	—
Military construction	15 of 15	100	—	6	8	1	—
State, Justice, Commerce, Judiciary, and related agencies	15 of 15	100	—	5	10	—	—
Transportation and related agencies d/	9 of 9	100	—	5	3	—	1
Treasury, Postal, and Executive Office	11 of 15	73	3	7	1	—	—
Government-wide Total	167 of 174		15	60	75	13	4
Percent e/		96%	9%	34%	43%	7%	2%

Notes to Table 2

a/Late enactment after June 30 for fiscal years 1962-76 and after September 30 for subsequent fiscal years.

b/Appropriations categories based on structure supplied by the Department of the Treasury. Excludes the District of Columbia appropriations.

c/HUD funded as an independent agency prior to FY 67.

d/Transportation and related agencies' appropriation bill came into existence in FY 68.

e/Any difference in the percentage is due to rounding.

* The figures in this table will vary from the table outlined in the GAO report entitled, "Funding Gaps Jeopardize Government Operations" (PAD-81-31) March 3, 1981, because the information has been updated and adjusted based on further analysis.

Table 3*

Late Enactment of Appropriations Bills a/ (FY 1977-1983) After the 1974 Budget Act (As of October 1982) b/

Appropriations c/	Late d/		Stratification of Late Appropriation Bills				
	Total Number	Percent	Less than 1 month	1-3 months	3-6 months	6-9 months	9-12 months
Agriculture and related agencies	5 of 7	71%	1	4	--	--	--
Defense	5 of 7	71	1	4	--	--	--
Energy-Water (public works)	4 of 7	57	1	2	--	--	1
Foreign assistance and related programs	7 of 7	100	3	2	--	--	2
HUD and independent agencies e/	4 of 7	57	1	3	--	--	--
Interior and related agencies	5 of 7	71	1	4	--	--	--
Labor, HHS, and related agencies	6 of 7	86	1	1	--	--	4
Legislative branch	5 of 7	71	1	1	--	--	3
Military construction	4 of 7	57	2	2	--	--	--
State, Justice, Commerce, Judiciary, and related agencies	4 of 7	57	1	1	--	--	2
Transportation and related agencies f/	4 of 7	57	1	3	--	--	--
Treasury, Postal, and Executive Office	4 of 7	57	1	1	--	--	2
Government-wide Total	57 of 84		15	28	--	--	14
Percent g/		68%	18%	33%	--	--	19%

Notes to Table 3

a/Late enactment after June 30 for fiscal years 1962-76 and after September 30 for subsequent fiscal years.

b/Only two appropriation bills, HUD and independent agencies and military construction, had been passed prior to adjournment. However, the President only signed HUD and independent agencies before the beginning of the fiscal year.

c/Appropriations categories based on structure supplied by the Department of the Treasury. Excludes the District of Columbia appropriations.

d/We have included 12 of the 13 FY 83 appropriations in this category because the earliest the Congress could act on these bills would be November 29, 1982, when they come back into session. There is a possibility that these bills may be passed later in the fiscal year, or not at all.

e/HUD funded as an independent agency prior to FY 67.

f/Transportation and related agencies' appropriation bill came into existence in FY 68.

g/Any difference in the percentage is due to rounding.

* The figures in this table will vary from the table outlined in the GAO report entitled, "Funding Gaps Jeopardize Government Operations" (PAD-81-31) March 3, 1981, because the information has been updated and adjusted based on further analysis.

Table 4

Funding Gaps in Federal Appropriations Between FY 1968 and FY 1983

Major Causes of Delay

1983	Heavy preadjournment workload, including debate on abortion, school prayer, and disagreement on riders.
1982	November 21-23--Impasse over the terms of the continuing resolution, particularly its spending levels where it did not cut enough from social programs or add enough for foreign aid to satisfy the President. October 1--Result of disagreement over riders regarding compensation of members, including congressional pay increases, tax deductions, and honoraria limit for Senators.
1981	Sixteen-hour gap result of disagreement on riders, busing, abortion, and congressional pay increase.
1980	Congressional pay increase, abortion, Federal Trade Commission authority, and various riders.
1979	Abortion, public works water projects, and delays in passing authorizing legislation.
1978	Abortion and D.C. convention center.
1977	Heavy preadjournment workload created by abortion issue.
1975	U.S. military aid to Turkey.
1974	Allocation of funds to States and localities for educational aid to the disadvantaged.
1973	Impoundment and reconstruction aid for North Vietnam.
1972	Foreign aid authorization, policy for withdrawing troops from Indochina, and aid to Cambodia.
1970	Major delays in enacting appropriations bills and Federal spending and inflation issues related to Labor-HEW appropriations.
1968	Presidential request for a 10 percent surtax and proposed cuts in Federal spending.

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Mr. BEILENSON. Thank you, Senator.

Let me make just three brief comments and observations. The first has to do with your final point about the possibility of going to a 2-year budget cycle.

I just raised, when Mr. Ford was here, some of the same questions which you raised but one of the big decisions our group and the people on your side, of course, as well, have is whether we are going to try to make major changes or not. That is going to be a difficult question for us to resolve.

As I suggested earlier, prior to your arrival, we shall have problems enough getting people to go along with some marginal changes in the budget process.

We may, in fact, stir up some additional opposition if we ask the authorizing and appropriating committees to change their ways, too. We may just be asking for more trouble than we can handle.

Second, you mentioned at the conclusion of your detailed statement a very real concern—and we agreed with you—that some critics of the process, especially in the House of Representatives, would like the budget process to go away.

Let me simply assure you that we think we have identified most of those folks and isolated them, I hope.

I think it is fair to say although some such folks do exist, far and away the majority of the Members of our House understand that we need a budget process and virtually all of the testimony has been directed to making some changes that would improve and strengthen it.

And, finally, we want to thank you again for taking the time out of your busy schedule to appear before us. I want to express the hope that we can continue to work closely together. Obviously, whatever changes are made will require similar changes on both sides. I don't think either of us will have a problem trying to get majority support for whatever we propose on our own side but we are going to have to coordinate and get the same kind of support for the same kind of changes on the other side.

So I hope you and I and your staff and our staff will be able to continue to work closely together.

Senator DOMENICI. Thank you very much, Mr. Chairman.

Mr. BEILENSON. You are very welcome.

Senator DOMENICI. While numbers and fiscal trend lines might be considered to be irrelvant to your deliberations in terms of what you are doing, I would urge that you make sure your committee does keep in mind the scope of the fiscal ingredients. Any process does not take cognizance of the fact that about 60 to 65 percent of this national budget is literally uncontrollable in the sense that if Congress went home without passing any legislation and the President never had to sign a bill, that much of Government would continue to operate. That is a very dramatic change in the U.S. budget from the way it was 20 or 30 years ago.

My recollection is that in John Kennedy's day only about 25 percent of the budget was composed of entitlements and so-called uncontrollables. So there has been almost a threefold increase percentagewise in these portions of the budget. Given the predominance of these types of spending in the budget, I think short of a process like reconciliation, what you would end up doing is relegating a budget process to adding up the numbers with no real ability to make changes that Congress wants made.

Mr. BEILENSON. We do understand that, Senator. Prior to our public hearings, we had a series of 10 or more private discussion sessions where we went through the entire budget process and what was emphasized to us repeatedly was the fact that we have control over only a small and shrinking fraction of all the money that we are dealing with.

Mr. Rhodes, do you have any questions, sir?

Mr. RHODES. Yes; I want to welcome my good friend and neighbor and to echo the words of the chairman concerning the work of the senior Senator from New Mexico and his role as chairman of the Senate Budget Committee, I think this has been a watershed Congress. The thrust of the Government, I think, has certainly been changed if not reversed.

The preoccupation that practically every member has in working toward a balanced budget is certainly a different trend and a very welcome trend to many of us. And I think the Senator from New Mexico has had a very dramatic part in bringing this about. I have congratulated him in private before. It is nice to be able to do so in public.

Let me just ask a couple of questions.

Several people have come before our panel and suggested one binding budget resolution and that reconciliation be accomplished in the first budget resolution. I personally have some reservations about this, but I would like to hear your opinion on that proposal.

Senator DOMENICI. Well, first let me thank you for your kind remarks.

I think the way the process has evolved, culminating in this year's budget resolution, has produced two characteristics that I think are excellent and should remain in the law. First is the realization that one resolution is adequate. This year we provided in the first resolution that if by the arrival of a certain date a second resolution has not been approved, the numbers and policies in the first one become binding. That seems to me totally reasonable and a good course to follow in the future. If that was the only problem, I don't think we ought to mess with the law. We ought simply to proceed that way whenever it seems to make sense.

Second, the use of reconciliation with the first resolution. If you read the act literally, it seems like the drafters contemplated that it be part of the second resolution, although I am firmly convinced that the catchall provisions in the act make it legal to do it in the first. I think we must now conclude that to try to reconcile after the second resolution is adopted is too late in the year. Also, trying to approve a reconciliation bill at that stage would probably do more to strain the relationship between the appropriators and the budget process than anything else because if you wait until the second to reconcile, it is pretty clear that the major impact would be to force the appropriators to pull bills back and change them. Because at that time in the year it would probably be impossible to get anybody to address themselves to medicare or medicaid or any of the correct spending entitlement programs.

So I think mandatory resolution is enough. It can be revised at any time, of course. We probably ought to change the act to make clear that the second resolution is optional. We ought also to make it clear that reconciliation is contemplated in the first rather than the second resolution.

Mr. **Rhodes**. I wonder if we shouldn't have two types of reconciliation, in the first budget resolution pertaining to entitlements and legislation and the second one only having to do with appropriation bills. Another proposal that we have had, and this was brought up when we originally considered the Congressional Budget Act, is for approriations bills not to be enrolled until they had all passed.

One reason I personally object to that is that I have always thought that the first budget resolution ought to be a study in macroeconomics and if you get it down to the fine point where you can make points of order against the subcommittee action, then obviously it is not macroeconomics. It is a line item budget. As you will recall, we had that situation some years ago when it took about 2 or 3 weeks for the first concurrent budget resolution to pass the House.

So, I don't want to argue. I am giving you my impression that the point of order in my opinion, is not the way to go. If you don't do it that way, I think you have to reconcile the appropriations process probably in a second budget resolution.

Senator **Domenici**. Well, Mr. Chairman and members of the committee, I certainly didn't want to imply that it is totally inappropriate to consider reconciliation on a second and to direct it at completed appropriation work. My present thinking is that we probably ought to retain the flexibility to proceed that way, but my experience tells me that you are probably not going to get a huge amount of savings through reconciliation directed at appropriations.

I think there are some other difficult and fundamental problems with reference to the budget and appropriations process. Some of those have to do, I say to my good friend from Arizona, with the way we allocate to the various committees the amounts provided for in the budget resolution—that is, the so-called "cross-walk" process. There is also a very serious misconception that the targets that we set, be it in the first or second resolution, are binding at a line item or even functional levels on the appropriators. As you know, that isn't true. The Appropriations Committee can literally move budget authority and the outlays flowing from them from one function to another. They are only bound by the cumulative totals. The jurisdiction of the subcommittees of the Appropriations Committee are not lined up with the functional alignment of either the President's budget or the congressional budget.

Now, there is nothing that tells us we are stuck forever with the functions we have. In fact, there was a suggestion by a very enlightened person who worked on the budget process for a long time that actually the House and Senate should get together and instead of having 19 functions, we could break down the budget, however the Budget Committee wanted and use whatever numbers and details that Congress wanted. It could be 80 accounts instead of 17 functions. Personally I think it would be better as part of this process if we aligned appropriations bills and breakdowns on budget resolutions in a more manageable way. Currently, it is almost impossible for anybody to really understand it but the budget crunchers that work for us, the CBO and the Appropriations Committees.

Mr. **Rhodes**. Well, Mr. Chairman, again I would like to thank our good friend and colleague for coming.

You also mentioned entitlements and as I recall I think you were suggesting in your statement the possiblity of sunsetting entitlements or was that Senator Ford?

Senator **Domenici**. Yes, I am interested in that.

Mr. **Rhodes**. Well, I find that attractive.

Senator **Domenici**. Well, I will tell you, Congressman Rhodes, I am not wedded to the notion of sunsetting entitlements, but it is sort of an indication of a sense of frustration about the need to reopen entitlement legislation in some regular and ordinary way so that the budget process doesn't always have the burden of ordering through reconciliation that there be entitlement changes. We can take a look right now and with pretty good accuracy tell you where an entitlement account is going. For example, right now it looks like medicare is growing at 16 percent a year.

Well, what do you do about that? You can leave it there and have no impact on it and plug the numbers into the budget and say that it is the answer. Every year it is 16 percent more. On the other hand, you can have some process whereby an orderly review of possible reforms is forced. I have thought of one possible approach that is probably far too complicated that would put those kinds of problems into a rescission and impoundment mode so that there could be automatic adjustments, within parameters, initiated by the Chief Executive.

I don't think Congress would ever buy that, but we have tried to draft it. It is tough to develop because you can't only talk about limiting the growth of costs due to inflation. You have to be concerned about the caseload that is added and about other things that increase costs.

So sunsetting is just a notion of forcing an orderly review.

Mr. **Rhodes**. Well, that is the reason it is attractive to me. I think there should be orderly review in ways other than by reconciliation. I supported the reconciliation bill and I think it was a monumental task. It was necessary at the time in order to change the course of the Government. But I did remark that I hoped that we would not have to do this forever because in the hope that the legislative committees would face up to their responsibilities. Maybe if we go to the 2-year budget in that off year they might be able to do so.

Thank you, Mr. Chairman.

Mr. **Beilenson**. I would just like to say to my friend from Arizona that sunsetting of entitlements may well be something that ought to be done. It might be good government but I wouldn't necessarily characterize it as attractive. I think we would have difficulty explaining to the folks back home why we were sunsetting social security.

Mr. **Rhodes**. I think the study would find itself in the wastebasket in a hurry, so I am not going to advocate it in this particular context.

Mr. Beilenson. Mr. Frost?

Mr. Frost. I would just like to ask a political question.

In your view, what are the chances for being able to pass significant changes in of the Budget Act to the Senate at this particular point? Is it possible to make that kind of judgment?

Senator Domenici. That is difficult to answer. I would say that probably there is a lot of support for the notion that we ought to change the Budget Act. One would normally conclude if there is a great deal of support for that the answer to your question would be in the affirmative. But I would be very concerned about whether we have the right kind of atmosphere in the institution so that we would get meaningful change rather than just changing the act because certain people have either real or perceived problems with it.

If we took a bill to the floor, I don't know what it would come out looking like. That is what I am trying to say at this particular point.

Mr. Frost. The general feeling in two Houses is that while there is significant support for retaining the budget process that there is a feeling that there are some significant change without identifying those that need to be made and it is anticipated, I think, that this task force will, in fact, produce recommendations for fairly significant changes. Is that a fair statement?

Mr. Rhodes. Yes.

Mr. Beilenson. I think it is. We are certainly open to all suggestions. We hope to come out with some relatively significant changes. We are not yet sure what they will be.

Mr. Frost. But it is, of course, a real question in terms of what is possible and I would hope that there is certainly continued support and you have indicated, I think, that there is continued support in the Senate for the budget process itself, that there is not a strong movement to repeal the budget process. Is that a correct statement?

Senator Domenici. I think that is a fair statement.

Mr. Beilenson. Mr. Bonior?

Mr. Bonior. Thank you, Mr. Chairman.

Let me speak specifically, Senator, on one of the significant changes that we made in the Budget Act and one which you previously have been supportive of: setting a fixed level on tax expenditures in the budget resolution. You sent a statement to our committee last December on this issue which was basically supportive of the concept. Can I ask you the political question, what kind of Department of Defense support might we find in the Senate? Is there growing support to stop the hemorrhaging on the tax expenditure side of the legislature?

Senator Domenici. That is pretty difficult for me to assess at this point. Tax expenditures are a strange phenomenon. It is a question of whose ox is gored. We are talking about a flat tax rate law over there now and it is becoming clear that it is not as utopian as many think. It would probably end up sticking the middle class. It could help the poor. It would certainly benefit the very rich. In addition, it would just about eliminate the tax laws as a social and economic tool. It seems to me that before we get too carried away with it, we need to remember that at this point we really don't know how to spend money so as to effect social change and economic change nearly as efficiently as some of the tax laws achieve change. But I think there is still support for putting more controls over tax expenditure into the budget process.

Mr. **Bonior**. That is what I was primarily moving at. I think your point about effecting social and economic change in our society by tax expenditures may indeed be desirable in many instances and it may be the way to go, but the control issue was the one I was concerned with and I think that it has a broad basis or is gaining a broad basis of support in the House. Although we did fail with one tax expenditure amendment this past year, we gathered a strong vote and I am hoping that that can be translated to a stronger vote next time.

Senator **Domenici**. I would also say, Congressman, that some events have evolved that might have an impact on my thinking 2 or 3 years ago on tax expenditures. In this year's budget resolution on taxes we did a very interesting thing. The House still has not established a precedent in a budget resolution to reconcile multiple years on the tax side. Your body wanted 1 year reconciliation on taxes and you got that. It might have come as a suprise, but the conference-approved budget resolution mandated the Senate to make a 3-year change in the tax laws for the cumulative $98.8 billion increase in taxes over the next 3 years.

Now that, in a sense, without picking and choosing, had a serious effect on tax expenditures. And I guess one could conclude that we should not have any line item authority, but if you order a change in the Tax Code that has a number affixed to it that is multiple year in nature, you certainly are putting pressure on the Finance and Ways and Means Committees to do something in the area of tax expenditures.

Mr. **Bonior**. That is exactly the area that I point to: before we chose between priorities and make priorities. I think that is a positive thing.

The other point I wanted to make and I was smiling when you alluded to it in your testimony is the 2-year cycle. It has been my experience and I am sure it has been my colleague's experience in administrative bodies that oftentimes work does not get done until the deadlines are pressed upon you and I am concerned about not getting done until the last year or the last month or the last 2 weeks for that matter. This deadline mentality is something that we all ought to consider when we discuss a 2-year cycle.

Thank you, Mr. Chairman.

Mr. **Beilenson**. Mr. Bolling, do you have any questions?

Mr. **Bolling**. I would like to make a comment. I came out to express once again my enormous admiration for the gentleman who is the chairman of the Senate Budget Committee. I think he has made a very real contribution to the processes of Congress and he has demonstrated an understanding of the subtleties of the political process in the House and Senate that made it possible for the overall set of institutions, the Congress and the Executive, to do some very important things. I think his efforts as chairman of the Committee and as a member of that committee have been of enormous importance to the country and the process of government and I am grateful to him, as I have said before.

Senator DOMENICI. Thank you, Mr. Chairman. Might I say in response, if we had had this meeting last year after the Omnibus Reconciliation Act of 1981, I would have been confronted with an argument by you, Mr. Chairman, that maybe this process had gone a little bit astray because you could say it looked like a rubber stamp for an executive budget. I am not sure that I wouldn't have found a way to argue that our 1981 experience wasn't so bad. But I am pleased to tell you that I think this year exemplified the continiung role of Congress in budget making. The budget that we finally completed is far, far different from the budget that the Executive submitted in February. It is dramatically different on the domestic side, with significant add-ons for education and other social programs and a rather significant reduction in defense. And, of course, the major change was about $75 billion in tax increases that were not contemplated

So I think Congress still has control of the budget. Even when both Houses are of the same party as the President, I think Congress goes so far with the President and then draws the line. Last year Congress did go along with a lot of changes the President wanted. This year was a different story. So I think Congress is no longer subject to the criticism that we are using the English system or of being a rubber stamp for the President. I know that concerned you at one point.

Mr. BOLLING. It did, and I would only note that one thing that disturbs me about the current situation and has discouraged me from the beginning of the actual functioning of the budget process, is that the U.S. Senate from the beginning has been much more civilized in its view of the budget process and has been able to pull together the party differences in a much more useful way than has happened ever in the House. And I think that the Senator should take into consideration the dilemma that exists in the House. The two bodies are very, very different and the views of Members toward their work is very, very different.

Senators have commonly three or four committee assignments. Some of the senior Senators have three or four very good committee assignments. But in the House there is an enormous difference between committee assignments and thus what worth is put on the individual work of Members from one set of committees to another. The dilemma that we face in the House right now is that the legislative committees feel badly left out and the Appropriation Committee and the subcommittees feel affronted. One of the problems this task force confronts and the House of Representatives generally confronts, perhaps to a greater degree than the Senate, is that there is an incipient revolt not against the Budget Committee alone, but against the budget process. If one looks at the history the House has ordinarily been the institution that destroyed the various versions of the budget process beginning with the Budget and Accounting Act of 1921 to the followup Monroe bill of 1946.

They have all had viable processes around when we dealt with the development of the new Budget Act. We tried to learn from these failures. And I think the great contribution that the Senator has made well beyond others is that he has demonstrated flexibility and in effect restored the argument that the process is, after all, a workable flexible process at its best. If that hadn't happened this year, I have a strong suspicion that there would have been absolutely no hope of preserving the budget process on this side and I hope my friend understands that there is a real threat to it right this moment on this side.

I totally agree with what he said and I am very pleased to have had the privilege of working with him in a variety of places.

Senator DOMENICI. Thank you very much.

Mr. BEILENSON. Mr. Panetta, do you have any questions, sir?

Mr. PANETTA. Thank you, Mr. Chairman.

I regret that I was not here to hear your testimony, but I looked at it and also heard Chairman Bolling's remarks about the fact that if there is any credit to be given for the budget process working, it belongs to the chairman on the Senate side and the chairman on the House side working to try to keep this process moving along. I happen to feel that the process has basically worked, that it needs the flexibility to be able to adjust to the threats that are there and if we implement either constitutional amendments or changes that restrict that flexibility, I think it is going to hurt us.

Mr. Bolling is right, though, that on the House side we are facing, I think, some significant movements to change the process. And it should be of concern to you, Pete, because the approaches that are being suggested are going to impact on both budget processes on the Senate and the House side if they are implemented. For that reason, I think it is very important for us to look at some of the problems, whether it is timetable or enforcement or what have you, and see how we can try to improve that process that we make clear to others that we want this process to work as well. The biggest problem that I see on this side frankly is the appropriations process and how the budget process can work alongside it because right now Appropriations blames Budget for their difficulty in getting bills out.

What is your thought with regard to trying to better coordinate the work between the Budget and Appropriations Committees so that they are able to do their work and carry out their responsibilities within a consolidated budget process?

Senator DOMENICI. Well, Congressman Panetta, while we have some of the problems that you have, probably the major difference is one of will. The Chairman of the Appropriations Committee and the Appropriations Committee staff are now at a point where a geat deal of communication and consultation occurs in the preparation of the budget resolution and, I am pleased to tell you, on a rather continuing basis thereafter. The staff of the Budget Committee used to be a plague in the eyes of the Appropriations Committee staff, and now for the most part they are welcomed in the preliminary markups. They are used as a resource. They are used to explain and they are used to verify crosswalk numbers and the like that might be peculiarly within the grasp of the budget staff.

We get along on the Senator level very well too. We meet rather regularly and discuss the issues. We know very well the kind of problems that they have and I would acknowledge that Chairman Bolling is right. These are important differences in the sense of what the membership does here versus our role in the Senate.

But I think for starters, the worst thing that could happen to the possibility of the relationships between Budget and Appropriations would be for an impression to come out that we are going to fix up this budget process so that the appropriators will no longer be burdened by it. That is impossible. The nature of the budget process is to burden everybody. If it is not a burden, we ought to throw it away. We ought to exchange ideas continuously. We ought to get ourselves together and make a commitment to make both processes work better rather than each criticising the other process. This Budget Act is not going to be changed easily in terms of substantive law. Nor will fundamental changes in the appropriations process be easily made.

I don't think we can hide from these issues. I just think some people in the appropriations process perceive more retraints on them than really exist. If you start with the premise that the process should have no impact on the Appropriations Committee and its subcommittees, then it is obvious we don't have a lot to talk about.

But on anything below that, there is plenty of room. This year we put a great deal of money in the budget resolutions for areas where the President proposed cuts that would have burdened the appropriators most. The Appropriations Committees did their own crosswalks to their subcommittees. Before you arrived, I indicated that in the last year of Jimmy Carter's administration—1980—when the first budget resolution was passed only 6 or 7 days earlier than it was passed this year, 12 appropriations bills were approved by the House by the end of September. Now, I draw no conclusions from that other than that delays in appropriations are most purely the result of delays in budgets. That is the only reasonable conclusion.

Now, that may be the nub of the problem. I don't know. If you look at this continuing resolution, as I have, it is going to be very difficult for the 13 appropriation bills to flow from that contining resolution and to remain consistent with subcommittee crosswalks. Remember that crosswalks are not yours or mine or the Budget Committees. They were approved by the appropriation committees. When you start down a path with a continuing resolution, you are going to be 90 days down that path and then you are going to have to have bills that go back to the older targets. I don't know how you are going to get back to where you started.

Now, I don't know that that is our problem. The budget process is not responsible for that.

Congressman Panetta suggested that maybe we should report earlier, giving people more time. That flies in the face of another valid concern and that is, if we go back a month and approve the budget in April, we have narrowed the time even more for the authorizing committees. They now have until May 15 to report authorizing legislation unless they want to seek a waiver. What if we did the budget in April? I think there would be waivers on nearly every bill. We have had 18 waivers in the last 2 weeks and it is October. I think we have 18 in our committeee right now. I don't think we had 18 bills reported out by May 15 in the whole U.S. Senate. Is that accurate?

Mr. FULTON. Yes.

Mr. PANETTA. Well, I thank you for your comments on that. That, frankly, is the biggest area of concern I have because I think that is where a great deal of friction lies. As I said, I am not sure how much is legitimate and how much isn't. That has to be a major focus.

Senator DOMENICI. Congressman, one other thought comes to mind, and it is certainly something that you have been interested in, and maybe we ought to consider it in a more diligent manner. That is the question of keeping score on appropriation bills. Several of the appropriation bills contain appropriations for entitlements or other mandatory items which the Appropriations Committees really have no way of controlling. if the authorizing committees cause legislation to be enacted that results in different levels for such programs that the levels assumed in the budget resolution, the Appropriations Committees must provide whatever level of funds is required under the substantive law. Of course we must reflect such changes in substantive law in our overall budget scorekeeping, but it isn't fair to charge the Appropriations Committees with such changes. I know that the House and Senate have approached this problem differently in the past. It seems to me that it would be highly productive for us to work together to see if we could reach a common ground in the House and Senate on how to handle this problem so that a consistent method of scoring can be developed that would present fairly the actions of the Appropriations Committees on those programs over which they have control.

Mr. PANETTA. Well, again I thank you for your comments and also I want to express my personal appreciation to you for the cooperation that you provided in the reconciliation process. I think there are probably four areas that need to be looked at, one being timetable and I appreciate your references to a 2-year approach. Second, scorekeeping assumptions and how we can better reestablish a common base. Third, I think on reconciliation to perhaps implement some of the reforms we need this past year. That, I think, makes sense; and lastly to firm up the fact that we are only operating with one resolution instead of two and somehow make that standard practice permanent.

Those are the four areas that seem to me need to be addressed in some way.

Thank you very much.

Senator DOMENICI. Thank you.

Mr. BEILENSON. Senator, we thank you very much for giving us your time. We are in recess until 2:15 this afternoon at which time we will hear from Mr. Giaimo, Mr. Bowsher, and Ms. Rivlin.

[Whereupon, at 12:30 p.m., the subcommittee recessed, to reconvene at 2 p.m., the same day.]

AFTER RECESS

[The task force reconvened at 2:30 p.m., Hon. Anthony C. Beilenson (chairman) presiding.]

Mr. BEILENSON. We will get started at this time. We expect some additional members of the task force to come along shortly, but a couple of you have pressing business elsewhere, so I thought we should get started now.

We will start with Alice Rivlin, Director of the Congressional Budget Office. I won't make an introductory statement, Alice, except to say that we value you greatly and we are very delighted you are able to take some time out to come up here and share your views on this matter with us.

STATEMENT OF ALICE RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Ms. RIVLIN. Well, I am delighted to be here, Mr. Chairman, and I regard it as an extraordinarily important set of hearings.

I have a statement that I would like to submit for the record.

Mr. BEILENSON. Without objection, that will be included at this point in the record in its entirety.

[Ms. Rivlin's prepared statement follows:]

PREPARED STATEMENT OF ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Chairman, I am pleased to appear before this Task Force to discuss possible ways of strengthening the Congressional budget process. My statement this morning will briefly review the progress already made in the budget process and will then offer several recommended changes in the procedures established by the Congressional Budget and Impoundment Control Act of 1974.

Big deficits and delays in adopting budget resolutions and passing appropriations have been cited as evidence that the budget process is failing and needs major overhaul. I do not share this view. The process has proved itself enormously resilient and adaptable in the face of extraordinary strains. It needs further strengthening but not basic change. The symptoms that cause concern about the process are much more the result of the basic underlying budget problems--an underfinanced budget and a rapid shift in budget priorities—than of procedural inadequacies.

At the beginning of this year's budget deliberations, the Congress faced the prospect of high and rising deficits over the next three years even assuming a moderate economic recovery. Under the discipline of the budget resolution, the Congress has recently enacted two major measures designed to reduce these deficits. The Tax Equity and Fiscal Responsibility Act raised revenues by nearly $100 billion and cut spending by $17 billion in fiscal years 1983-1985. The Omnibus Budget Reconciliation Act of 1982 reduced outlays by an additional $13 billion over the same period. These actions, and the additional spending reductions assumed in the budget resolution, have made a substantial down payment on correcting the unfortunate budget outlook projected in the baseline budget prepared earlier this year.

Nonetheless, the Congress will enter the fiscal year 1984 planning cycle with a very difficult assignment: to reduce the still excessive deficits over the next few years while maintaining economic recovery. This will require tackling all components of the budget, including national defense, income security, federal credit activities, and taxes. It will also require a strengthening of private-sector confidence in the economy and in the government. Only with a strong budget process—one that gives high priority to meeting aggregate goals, forces hard choices, and discourages cosmetic changes—can such confidence be built.

PROGRESS UNDER THE CURRENT BUDGET ACT

The Congressional Budget Act of 1974 was intended to increase Congressional control over the federal budget and to establish an orderly schedule of budget actions. The Budget Act originally established an annual multistep budget process. The Congress would set tentative budget totals in a first resolution in May (by which time all authorizing legislation was to have been reported out of committee); second, it would do all the detailed work on specific appropriations and tax laws; and third, it would make binding decisions on budget totals in a second budget resolution to be passed in September just before the fiscal year began. Final adjustment was to be made through a process of reconciliation—that is, reconciling the detailed changes just passed with the spending and revenue totals in the second resolution.

Experience with the budget process has revealed that the hard decisions to cut spending or raise taxes must be made early in the year, not left to September when the budget year is about to begin. Hence, the first resolution has become increasingly important and the second increasingly a formality. This year's first concurrent resolution recognizes this development by explicitly stating that the first concurrent resolution will become binding if a second concurrent resolution has not been adopted by the beginning of the new fiscal year.

A related development has been the use of reconciliation instructions in the first, rather than the second, budget resolution for the past three years. Before the spring of 1980, the Congressional budget process had little impact on entitlement spending. Each year's budget resolutions included assumed legislative savings to be accomplished by amendments to entitlement program authorizations, but these legislative savings were rarely enacted. The first concurrent resolutions for 1981 and 1982 included reconciliation instructions directing committees to report amendments to mandatory spending programs. The fiscal year 1982 reconciliation instructions extended the scope of reconciliation by requiring multiyear spending reductions. The reconciliation instructions for fiscal year 1983 continued to address mandatory spending and were extended to set revenue goals for the tax committees, again using multiyear targets.

The budget process has also been expanded to cover direct and guaranteed lending, an area of federal activity not originally specified in the provisions of the Budget Act. Federal credit activity rapidly expanded during the first five years of the Congressional budget process. While efforts were focused on holding down on-budget spending, off-budget credit and loan guarantee activity rose sharply. In response, the Congress began to seek ways to control federal credit through the budget process. The budget resolutions for fiscal years 1981 and 1982 set targets for total direct and guaranteed loans and allocated those targets among the budget functions. The first resolution for fiscal year 1983 went further, requiring new credit authorizations to be subject to appropriations limitations and the credit budget to be allocated among committees of jurisdiction; the targets will become ceilings upon enactment of the second budget resolution. These extensions of the budget process into the credit area give promise of better control over the total impact of the government on the economy.

Another important change is the growing acceptance of the multiyear nature of budget decisions. The budget resolution (including the reconciliation sections) now includes spending and revenue targets for the upcoming budget year and for two years beyond. This change recognizes several facts. First, most of the outlays in the upcoming year are locked in so that substantial changes in priorities can only be accomplished over a longer period. Second, abrupt changes in the tax code or in entitlement programs, in particular, are disruptive. A multiyear approach allows for phasing in changes. Moreover, focus on the upcoming budget year alone is an open invitation to creative accounting and fund-shifting. Multiyear targeting is particularly important when it is deficits in the outyears that are most troubling from an economic perspective—as in our current outlook.

The changes that have been implemented under the Budget Act underscore its flexibility. In response to serious economic and budgetary problems, the Congress has been able to modify its procedures. These changes have strengthened the budget process and have permitted the Congress to begin to address the serious problem of reducing the deficit.

PROVEN CHANGES

To strengthen the process further, the Congress should continue the procedures that have already proved effective and expand upon them. The first resolution should be binding, multiyear goals should be incorporated in the resolution, reconciliation should be made a part of the first resolution, and the resolution should be formally expanded to cover credit. These procedures are possible regardless of whether the Budget Act is actually revised.

Making the first concurrent resolution binding would force all participants to deal seriously with hard budget choices at an early point in the budget cycle, thereby giving subsequent committee actions firm guidance. Furthermore, a binding first resolution would eliminate the need for a second resolution, which could save considerable time and work. Amendments to the resolution would be possible at any time, but should be necessary only if economic conditions change significantly.

The current practice of including outyear numbers in the resolution should be strengthened by making those numbers binding. Making outyear numbers in the resolution subject to a point of order would be taking a step toward controlling the long-term growth of the budget. In addition, a fully considered multiyear plan would enable the Congress to use the outyear estimates provided in the resolution as a base for planning the next year's budget. The Congressional Budget Office (CBO) could develop its baseline estimates using the second year's estimates from the previous year's resolution. Changes resulting from legislative action could be distinguished from shifts in the economy to highlight the Congress's progress toward its targets.

Reconciliation should continue to be part of the first resolution, but possibly modified to allow more time between approval of the reconcilation instructions and reporting of the bills. To allow adequate deliberation on proposed changes, either a fixed time, such as 60 days after enactment, or a fixed date before the beginning of the fiscal year, such as September 15, might be appropriate.

Similarly, the expansion of the resolution to cover federal lending and loan guarantees—the credit budget—should be continued. The Appropriations Committees should be encouraged to set limits on credit program levels and to consider potential trade-offs between credit and direct spending. Reconciliation instructions might also be extended to cover non-appropriated credit programs. The off-budget status of some federal credit activities should be revised. Unless the activity is fully privately owned, it should be on-budget. Any budget authority and outlays for the Rural Electric and Telephone Revolving Fund and the Rural Telephone Bank should be on-budget. The budget authority and outlays for the lending activity of the off-budget Federal Financing Bank should also be included in the unified budget but in the accounts of the agencies originating the loans.

ADDITIONAL APPROACHES TO STRENGTHENING THE PROCESS

A number of other budget procedures should be considered for inclusion in the budget process. First, some action is needed to ensure that appropriations bills are enacted on a timely basis and are within the limits established in the resolution. Second, tax expenditures ought to be included within the coverage of the budget process. Finally, the Congress should seriously consider shifting to a biennial budget as a means of solving its time and workload problems. The Congress could use the flexibility in the Budget Act to test these procedures.

Appropriations

Over the past few years, the Congress has increasingly relied upon continuing resolutions to fund appropriated activities. Delays in the enactment of appropriations bills have been due to a number of factors: policy differences between the House and the Senate, political differences between the Congress and the President, appropriations riders (for example, abortion and school busing amendments), and the budget process itself.

A related issued facing the appropriations process has been the problem of determining whether each bill was under or over the assumptions of the budget resolution. Under the Budget Act, only the aggregates are subject to a point of order. The resolution makes an allocation among functions—between, say, guns and butter. The distribution of the aggregates among the committees of legislative jurisdiction—the spending committees--is not voted upon, but is specified in the accompanying report. Each spending committee then divides its allocation among subcommittees or major programs. The allocations of each Appropriations Committee to its subcommittees, and the subsequent reported appropriations bills, may deviate from the functional totals included in the resolution, thereby changing the resolution's priorities to those of the committee.

Various possible changes in the appropriations process might ensure timely enactment and compliance with the resolution.

Omnibus Appropriation. A single omnibus appropriation bill could be used. Any conflicts with the budget resolution could be resolved during consideration of the bill. A possible shortcoming of this approach is that, if the President were presented an omnibus bill with which he disagreed, his options would all be distasteful.

Delayed Enrollment. A second option would be to retain the current process of considering individual bills and delaying the enrollment of those bills that exceed either the committee allocation or the functional allocation. Bills that had been held up because they exceeded the resolution or had not passed both Houses by, say, September 15, could be combined into a single omnibus bill. This bill would then be offered to the Congress to allow it to make the changes needed to conform appropriations action with the resolution.

Automatic Continuing Resolution. A third alternative would be to enact a permanent, automatic continuing resolution to assure continuing funding of federal programs. This measure would automatically extend all appropriations bills pending at the end of the fiscal year at the previous year's level or some portion thereof, such as 90 percent. This would eliminate the end-of-year brinkmanship to approve a stop-gap funding bill, a practice that appears to the public as a failure of governance.

Binding Spending Committee Allocations. Finally, the allocations made by the Appropriations Committees under section 302b of the Budget Act could be made binding. In order to ensure that the functional priorities of the budget resolution were not disregarded, it might be necessary to require that the allocations be voted upon.

Tax Expenditures

The coverage of the budget process should also be expanded to cover tax expenditures. Tax expenditures are special provisions of the tax code designed to encourage some desired activity or to provide aid to certain categories of taxpayers. They are therefore similar to spending and lending programs, and have become one of the major ways by which the federal government allocates resources and affects private decisions.

Nevertheless, the budget process does not control tax expenditures in the same way it controls direct spending. Although the CBO and committees of the Congress prepare estimates of the revenue losses that result from changes in the tax code, budget resolutions do not include ceilings on the total of tax expenditures. Nor are tax expenditures broken down into function-by-function targets and then crosswalked to committees of jurisdiction. One consequence of this lack of control is rapid growth. From fiscal years 1974 to 1981, tax expenditures grew by 179 percent, compared with a growth rate of 145 percent for direct spending (outlays). In 1974, there were 71 tax expenditures, while the fiscal year 1983 budget includes 104 items, with a revenue loss exceeding $273.1 billion.

A tax incentive can be an efficient method of allocating resources. There is concern, however, that because of their separation from the budget process, tax expenditures have been used too often. The result may be to narrow the tax base so that it is unable to perform its major function of raising revenues. The large number of tax expenditures has resulted in a system that many believe is inequitable and overly complex. Finally, a strong case can be made that a number of the tax expenditures create serious economic distortions.

One approach to increasing budgetary control of tax expenditures would be to include a ceiling on tax expenditures in the aggregates section of the budget resolutions. Any ceiling involves measurement problems, but these can be minimized if controls are focused primarily on incremental changes in the total.

Setting an overall ceiling would enable the Congress to reduce the drain of tax expenditures on the revenue base. A further step would be to incorporate tax expenditures into the function-by-function review currently performed on spending programs. In most budget functions, there are tax expenditures that have purposes similar to spending programs; in fact, tax expenditures actually exceed outlays in the commerce and housing credit function and in the general purpose fiscal assistance function. Part of the coming effort to narrow the budget gap should include a thorough review of this overlap among spending programs and tax expenditures, with an eye to which approaches are most effective or least costly. This could perhaps be best done by allocating tax expenditures jointly to the tax committees and to the spending committees with pertinent jurisdictions. A committee's actions on tax expenditures could be credited to its spending allocations, thereby encouraging trade-offs between the two.

The Congress made a start at tax expenditure reform this summer when it passed the Tax Equity and Fiscal Responsiblity Act. This legislation contained 13 provisions that reduced tax expenditures and only 2 that increased them, resulting in a net revenue gain of $31 billion over the fiscal year 1983-1985 period.

Biennial Budgeting

Shifting to a binding first resolution and use of an omnibus appropriation would help reduce the current overload of the budget process on the legislative calendar. A more drastic change would be to adopt a biennial budget process extending the budget to two years and reducing the steps in the budget process by one-half. This would also reduce the legislative burden, encourage oversight, and enhance the quality of deliberation.

The first session of each term could be used for the enactment of major budgetary decisions: a binding resolution, a reconciliation bill, and tax and appropriations actions. (Adjustments would be considered in the second session only if the economy changed or other unexpected events occurred.) The second session would be devoted to oversight and consideration of authorizations. Additional emphasis on oversight is needed to allow review of major national policy issues such as financing Social Security and national defense, restructuring energy policy, and reconsidering the federal system. Appropriations and authorizations would be enacted for at least a two-year period, greatly reducing the layers of consideration now required of the Congress.

CONCLUSION

In short, Mr. Chairman, the budget process has proved to be very resilient and adaptable to change. What is needed now is continued wise use of this flexibility to bring the budget back into control.

Ms. RIVLIN. Thank you. And I will summarize it really very briefly.

First, I think that the budget process has proved itself strong and flexible under extraordinarily difficult circumstances. There is a good deal of negativism at the moment and one hears around the Hill and in the press that the budget process is in deep trouble, that the Congress can't get anything done on time, and that everything shows the weakness of the budget procedures.

I don't agree with that. I think that, while there are difficulties in getting things finished on time, the process has actually functioned very well and the difficulties are symptoms of the basic underlying budget problem that faces the Congress right now—an underfinanced budget and a rapid shift in budget priorities.

This year has been a good example of the strength of the process and the difficulty of the problem. We started into this budget year with projections of rapidly escalating deficits, if the Congress did not take strong action. The Congress has taken strong action both on the tax side and on the spending side. It passed a strong budget resolution calling for spending cuts and tax increases. Those tax increases are now part of the law. Many of the spending cuts have been enacted and the rest of them are embodied in appropriations bills that have not yet become law, but that must comply with the budget resolution. It seems to me that this is a major achievement and one that the Congress should be very proud of.

The experiences of working with the Budget Act over the last several years offer several lessons. Originally, as you know, the Budget Act prescribed a multiple-step process with a target resolution in the Spring and a final binding resolution in the fall. All the important decisions were seen as happening in September.

The experience with the process has shown us that if you are going to make major changes in the budget, you have to make them early in the year or you can't make them at all. Moreover, there is no point in making them twice. The lesson has been that the first resolution is the most important one and the one in which the major decisions have to be made. You need an amending procedure, but you don't really need a second resolution as a focus of decisions in September.

A second part of this lesson has, of course, been the moving of reconciliation from the second resolution to the first for the same reason. If ongoing spending programs are to be cut or if taxes are to be raised, you have to decide that early.

Another lesson has been the importance of credit as a part of the U.S. Government's activities. Credit was only loosely discussed in the original Budget Act, but it has become clear that, if you are going to control spending but not credit, you are only solving part of the problem, and the Budget Committees have moved strongly toward including credit in the process.

And finally, I think it has become obvious that you cannot work on the budget of the U.S. Government 1 year at a time. You have to look at several years at a time, and thus the resolutions of the last several years have focused very clearly on 3 years. This year we have talked about 1983, 1984, and 1985 and the deficit implications of various changes in the budget as though that were all the same problem—and it is. It has to be thought of in that context.

So, basically, it seems to me that the first move in strengthening the budget process, and I do believe it should be strengthened, is to build on the experiences of the last several years and to incorporate those proven changes in the budget process. These changes need not take a change in the law, although they could, but I think that the important thing to be done is to have a binding first resolution that could be amended at any time during the budget year if circumstances or economic conditions change but would not have to be amended at any particular time.

I think that the binding first resolution should be multiple-year resolution. The outyear numbers should be binding as well as the inyear numbers and the second year of the budget resolution could then serve as a baseline for starting markup of the budget resolution for the following year.

I think it should be recognized that reconciliation belongs in the first resolution. Probably you should allow more time for committees to respond to reconciliation instructions. It is a terribly difficult task, as everyone knows, and one could allow 60 days or set some day, like September 1, by which reconciliation instructions must be complied with.

Similarly, I think credit should clearly be in the first resolution, should be binding, and should be included in the reconciliation instructions.

It would also seem advisable to bring all of the activities of the government, but especially those involving the Federal Financing Bank, on the budget. Rather than making the Federal Financing Bank an onbudget agency, I think that it would be better to bring the lending activities of the agencies that borrow from the FFB explicitly onto the budget iself.

All of these changes would strengthen the process considerably, but along the lines in which it has already evolved. These changes would not, however, solve all the problems. Let me mention just three that I think would remain and would need very strong attenton.

The most obvious problem today is how to get the appropriations bills finished sooner and to make sure they are consistent with the budget resolution, not just at the aggregate level but at the functional level as well.

You have a number of choices in this regard, and they each have advantages and disadvantages. A single omnibus appropriation bill is one thing that might help. Delayed enrollment of appropriations bills is another less drastic version of that general approach. A third way of forcing action might be to have an automatic continuing resolution that would simply come into place if appropriations bills were not passed. One might want to have that continuing resolution at lower than 100 percent of the previous year's level—say, 90 percent or 85 percent—to bring pressure in the Congress to get the appropriations completed rather than riding with the continuing resolution.

Along the line of making sure that the appropriations actions are in line with the budget resolution at a level less than the aggregate, it would seem to make sense to make the committee allocations binding. It might be necessary to have them actually voted on in the resolution.

A second problem that I think needs serious attention is how to get more focus on tax expenditures as part of the budget process. The special provisions of the Tax Code that aid individuals and businesses are often very costly in terms of revenues lost and serve many of the same purposes as direct spending. The Budget Act talks about tax expenditures, but does not give the Congress the same control over them that it does over direct spending.

One possibility would be a binding ceiling on tax expenditures. There are some measurement difficulties in adding up tax expenditures, but I don't think they are insurmountable.

More important, I think, is to find some way of making sure that the tax and spending tradeoffs are considered within functions—as in health or housing—so that the Congress can think about questions such as: Should we do this with a direct spending program, or should we do it with a tax program and what are the advantages and disadvantages of each? Some kind of shared jurisdiction between tax and spending committees over tax expenditures in particular functional areas would seem to be a way to do that.

Finally, Mr. Chairman, there is the problem of the workload of the Congress. The budget process, while necesssary, has clearly added to the workload and made it harder for the Congress to get its work done. The Congress clearly makes too many decisions and it is hard to get everything done and get it done well.

One approach to cutting down on the number of decisions, with the hope of getting more attention to those that are most important, would be to move to a biennial budget. In principle, this would cut the load in half, by making it possible to make the budget decisions half as often. The first session of Congress could be devoted to budget and appropriations, and the second session to oversight activities and the accompanying authorizations.

There are some problems with forecasting the economy as far ahead as 2 years. There are some problems with forecasting as far ahead as 1 month. Basically I think it would be worth putting up with some of those increased forecasting difficulties in order not to have to decide the budget of the U.S. Government as often.

In conclusion, it seems to me the budget process has proved itself strong and resilient. The outlook for continuing budget deficits really means that you are going to need a strong process for the future. I would urge your task force simply to take a look at the ways of building on experience and strengthening the process.

Mr. BEILENSON. Let's recess for about 5 minutes. Mr. Frost and I would like to go vote. If you have a few more minutes, we would like to ask you some quesitons.

Ms. RIVLIN. Fine.

Mr. FROST. You touched on a number of interesting things and I think there will be some questions.

Ms. RIVLIN. That is fine.

[A brief recess was taken.]

Mr. BEILENSON. We will get started, Mr. Frost will be in shortly.

Thank you very much for your testimony, Ms. Rivlin. If we may, we would like to be able to call on you again a month or two from now when we get serious about resolving some of these problems and talk to you some more about some of these things.

Ms. RIVLIN. Fine. I would be delighted.

Mr. Beilenson. Your experience is obviously very useful to us. Let me tell you that we have had a series of four hearings this month and most of those who testified are in agreement with at least a couple of your proposals such as including reconciliation instructions in the first resolution as in fact has been done recently. There hasn't been much talk about credit although I think people generally favor some budgeting controls over lending programs. So I think the things that you suggested at the outset are also being suggested by others interested in the process.

You said at the very beginning, and I think we agree with you, too, that the process has really shown its resilience during a very difficult 2, 3 or 4 years. Considering the fact that we had to deal with a budget, submitted by the President, that was so far out of the ballpark that everybody else was playing in, frankly, I think it is kind of miraculous that our friends in the other body, the Republicans, disposed of it quickly and started in again writing a different budget. We weren't dealing with a Presidential budget which could be easily dealt with, and yet the process this year did work and obviously put us in a better position to save money and be more careful about spending money than we would have been without it.

At the outset of your testimony, you say that the process needs further strengthening, but not basic change. This isn't really meant to be a semantic question, but when you talk about some of the points on pages 9 and 10 of your prepared statement, when you talk about omnibus appropriation bills or delayed enrollment or an automatic continuing resolution, do you consider those as basic changes or just further strengthening?

Ms. Rivlin. Those changes would be somewhat different from what happens now.

Mr. Beilenson. Mr. Obey and Mr. Gephardt have proposed an omnibus budget bill. That is a different way of going about things. We are strengthening the budget process, but could you describe it as a basic change?

Ms. Rivlin. Yes; I think you could. I am not entirely convinced that is the right way to go, although it would certainly simplify a lot of things, especially if you have strengthened the first resolution and made clear that it is binding and that it is binding at a committee or functional level. Then I think you want some way of getting the appropriations brought into line with that resolution quickly and avoiding a rush for the gate with some appropriations trying to get in ahead of others. It makes more sense to consider them all at once.

Mr. Beilenson. If you just undertake the changes that you suggest—I mean the ones I first mentioned, one resolution with reconciliation—they haven't solved our problems. Here we are in October and we haven't implemented very much of our budget at all. It seems to me that we would just be writing into the law those things which in fact the Budget Committee has taken up by itself under the authority of section 301(b)(1) which gives it the authority to make procedural changes. Those changes only continue the process we presently have. So should we go beyond that?

Ms. Rivlin. I think it would be good to go beyond that, but I don't regard it as absolutely necessary. I think this year has been remarkably successful and the only thing that remains to be done is to get those appropriations bills passed.

Mr. BEILENSON. You would not, then, fault Congress for having passed nothing but a budget resolution?

Ms. RIVLIN. No; you implemented much of the budget resolution. You passed a tax bill in an election year, and I regard that as really quite remarkable. You cut spending both in the tax bill and in reconciliation in significant ways, and you now have a binding resolution, in essence, as of day after tomorrow that gives you a mechanism for forcing the appropations bills in line. The only thing that hasn't happened is that it is almost the first of October and those appropriations bills aren't passed yet.

Mr. BEILENSON. All right.

Also, your view indicates an interesting difference in perspective from those of us who are a little bit outside the budget process as most members feel themselves to be and those of you who are in the center of things. I had not thought of the tax bill which I voted for, and thought was a responsible thing to do, as an outgrowth of the budget process though I guess in some ways it was. I looked at it as politically forced upon the President because we agreed to cut taxes $750 billion last year. Obviously couldn't tolerate such a huge loss of revenue and whether or not we had a budget resolution, we would have had to pass a tax increase in the last month or two. I am sure it was easier to do because it was called for in the budget resolution, but I think it resulted from pragmatism on the part of the President rather than the budget process. I may be wrong.

Ms. RIVLIN. If you imagine dealing with this situation before 1974, I am not sure what would have forced the Congress to focus on the size of the future deficit and the necessity of passing this.

Mr. BEILENSON. I am not arguing with that. I believe the fact that we have a budget process is important. It makes us think about it and so on. I am talking about specific actions we accomplished this year. I don't think of the tax bill which I thought was a very important and necessary thing to do as part of the budget process itself, although obviously one can think of it in those terms. As I suggested I think it would have come anyway as long as we were aware of the deficits and the problems that they were causing.

What about the biennial budget cycle? In theory almost everybody seems to like it. In reality, some of us are a little concerned that we may, in a sense, be biting off more than we should chew or can chew if we suggest a 2-year cycle along with some less dramatic changes in the budget process. Many of us especially the gentlemen who just walked in, Mr. Panetta, thinks that the whole place would work better if we had a biennial budget cycle and did not spend the same time both years doing the same things.

But, along with the problem we will have in any case of getting a majority vote on the floor to approve even marginal changes in the budget process, we may upset or infuriate some folks if we require them to change the way their committees function. We are a little bit leary, I think, of having our task force basic reform that would require committees to operate in a different way than they operated in the recent past.

Ms. RIVLIN. I see the dilemma and it does seem to me that the biennial budget is such a big change that it is not one that should move very quickly. The way out of that has been suggested by several other witnesses, including Chairman Domenici, that you phase it in. A large portion of the appropriations load, not to mention the authorizing load, could be moved to a 2-year cycle quite quickly with the agreement of the Appropriations Committee. Then you could see whether it really does cut the workload and whether it creates more problems than it solves. But it would seem that experimenting in that way would be a helpful thing to do.

Mr. BEILENSON. Let me ask you one more question while you are here, if I may, with respect to Mr. Obey's and Mr. Gephardt's proposal for an omnibus budget bill.

In their way of looking at it, you would have a budget resolution proposed by the Budget Committee and debated on the floor, but not passed; you would then wrap it up with 13 separate titles which consist of 13 separate appropriations bills plus a revenue title from Ways and Means, plus some spending matters from various authorizing committees; and then you would vote on the whole package which, when finally all wrapped up, would be a budget. You would have completed your budget and that would be it. With any luck it would be done by the end of June or sometime in July. From your point of view as CBO Director, does that proposal make sense to you? We hope it does, at least some of us do.

Ms. RIVLIN. It makes less sense to me than the two step process that I was suggesting—namely, you go ahead on the budget resolution and then you do appropriations, but you only vote on the appropriations as part of an omnibus bill. Trying to do it all at once and just working with the totals in the budget resolution and all of the details of appropriations in the same bill seems to me to be trying to do too much.

Mr. BEILENSON. How would that work? Would you pass the budget resolution first?

Ms. RIVLIN. Yes; you would pass a binding budget resolution—the May resolution would be a binding resolution—and then you would go ahead as you do now and have appropriations.

Mr. BEILENSON. When? How do you ever get them out?

Ms. RIVLIN. I think you would do it in the summer. You just try to get it all done. The hope would be that, if nothing could move forward until the whole bill did, you would get it done and vote on it.

Mr. BEILENSON. Mr. Frost?

Mr. FROST. First of all, I am not sure, maybe I didn't understand the process. In your testimony you were talking about the allocations under section 302(b) and you were suggesting allocations made by the Appropriations Committee under 302(b). Are those made by the appropriations committees? Who are those made to? You have lost me somewhere in the process?

Ms. RIVLIN. Under 302(b), the Appropriations Committee allocates to the subcommittees of appropriations.

Mr. FROST. We had some hearings on this a couple of months ago and I raised a question about this and raised exactly the point that you are making and the fact that these were never voted on. And it seems to me that it makes a great deal of sense to have them voted on by the House so that we know exactly what we are doing and it is clear to us by the amount that we are allocating to the subcommittee that the process seemed to be a little confusing to me without having been on the Budget Committee or the Appropriations Committee about how those allocations were arrived at. They took the functional categories in the budget resolution and then divided those up according to which subcommittee they came under and it just kind of happened and was done by staff? Is that a fair characterization?

Ms. **Rivlin**. Those allocations were certainly discussed by the committee, but they were not voted on.

I would suggest that you direct that line of questioning to former Budget Committee Chairman Giaimo who is more of an expert in the mechanism of it than I am.

Mr. **Bonior**. I thank you for your comments. That issue is something that I and others on this panel have been interested in and that needs to be focused on in any reforms which we undertake in the future. In a large sense, last summer we corrected what we had done a year earlier in terms of tax expenditures.

The other point is that I sometimes wonder with respect to the timetable choices that we all talk about—a 2-year cycle versus trying to straigthen out the existing 1-year cycle that we operate under now—if we got a better start at the beginning of the year, perhaps we would not be struggling at the end of the year. It has been my experience since I have been here that in the committees we don't start doing anything around here until the 3d week of February, which is OK if you like to travel and investigate. That is an important part of the job, but it seems to me that if we moved the load up on the front end a little bit, we could all escape with something like a reasonable date in October.

Thank you.

Mr. **Beilenson**. Mr. Panetta?

Mr. **Panetta**. Alice, I don't know whether you addressed this in your testimony or not, but one of the areas of concern that you are familiar with is the whole area of scorekeeping and using the same numbers. We have a tremendous problem between what CBO gives us and what OMB decides are the numbers and assumptions. That is one problem.

The second problem, and I think it is a legitimate concern, is that when we develop a budget resolution regardless of what we try to do, it nevertheless is a political document and so there are games played. False assumptions are built into budget resolutions that later become real. They become real in reconciliation and they become real to the Appropriations Committee.

Is there a way to take that budget resolution and perhaps date it in some way that would then apply to appropriations and what have you? Do you see that as a problem? Is there some way to try to do it, particularly if we go to just one budget resolution makes sense?

I guess I am asking two questions. One, is it possible to develop a greater consensus on numbers than we have now, and second, is there a way to try to trigger the budget resolution to change with new economic assumptions?

Ms. Rivlin. Yes. On the assumptions problem. As you know all too well, it certainly makes it much more confusing for the Congress when the administration has a different set of assumptions from those of the CBO. This occasionally is made worse when the Houses of Congress cannot agree, and then compromise, so that there is a third or fourth set that doesn't match. I think that it would help to have some mechanism for agreeing on a common baseline that would be, first and foremost, a common set of economic assumptions.

I do not think that can be done by simple negotiations between the OMB and the CBO. By its very nature, the OMB is always going to be more optimistic than the average of the forecasting community. This is not to blame the OMB; administrations simply have to be that way in presenting their program. The CBO, however, does not have to be. It can be more in the mid-range of economic projections. But any compromise between these two sets of numbers would still be a political and somewhat optimistic set of assumptions.

There might be a way of getting some neutral group, on which OMB and CBO could be represented, to agree on a set of assumptions. Then I think you would have to allow the adminstration to say we are really more optimistic than that and this is how the numbers would change if we were right, and other people could point out their differences, but at least you would have a common baseline and everybody would know what economic assumptions they were working from.

Economic assumptions are only part of the problem of a common baseline, however. The administration and we often differ on noneconomic estimates—for example, on how much will be spent on some programs, on how rapidly defense spending will spend out, or on how much will be brought in for offshore oil receipts, and so forth. Again, I don't see any real solution to that problem. There are political motivations for doing it one way or another, and I think you will have differing estimates. And they should not just be split down the middle.

The question of changing over time is in some ways a more difficult one. If we could stop the economy while we made the budget, it would be nice, but we can't and it is going to change. I do think that a mechanism for updating the budget resolution is necessary. The question is at what point in the process do you want to do that? I am not sure.

Mr. Panetta. Thank you.

Mr. Beilenson. We thank you very much and we will be back in touch with you with further questions.

Ms. Rivlin. Thank you. And let us know when we can help.

Mr. Beilenson. Thank you.

Our next witness is our former colleague and friend, Mr. Robert Giaimo, who is speaking to us not only as a friend and former colleague but on behalf of the Committee for a Responsible Federal Budget, which is interested in seeing to it that we do our job correctly.

It is good to have you, sir.

STATEMENT OF ROBERT N. GIAIMO, COCHAIRMAN, ON BEHALF OF THE COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Mr. GIAIMO. Thank you, Mr. Chairman, and members.

We have a prepared statement which we submitted to you.

Mr. BEILENSON. It will be put in the record at this point in its entirety.

[Mr. Giaimo's prepared statement follows:]

PREPARED STATEMENT OF HON. ROBERT N. GIAIMO, CO-CHAIRMAN, COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Don't Try to Amend the Budget Act This Year

Mr. Chairman, we are testifying today on behalf of the Committee for a Responsible Federal Budget.*

Our Committee is concerned for the survival of the Congressional Budget Process.

The deficits we face, and the options for reducing them, are so politically loaded -- we fear that like kings of old Congress may kill the messenger, rather than face the music. And the Congressional Budget Act and process are the messenger.

Let us say at the beginning, it is not our position that the budget process as we know it is perfect; but we do believe it is the best hope we have to promote responsible fiscal policy for the country.

There will always be differences of opinion about spending and tax priorities; but most informed observers, indeed most taxpayers, agree we must have a system within which we first agree on aggregate fiscal policy, then decide among competing priorities. The Congressional Budget Process is all that exists to achieve that objective.

There are ways in which we would modify the existing process. We are well aware that many others are anxious to alter our budget systems. But there are no changes so compelling that we would recommend floor consideration of amendments to the Budget Act this year.

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*/ The Committee for a Responsible Federal Budget is a bipartisan private nonprofit organization formed to support and strengthen the Federal Budget Process.

The Committee is Co-Chaired by Robert N. Giaimo, former Chairman of the House Budget Committee; and Henry Bellmon, formerly Ranking Republican on the Senate Budget Committee. Brock Adams, Roy Ash, James T. McIntyre, Jr., Delwin Clawson, Howard Moskof, Alan Greenspan, Edmund S. Muskie, John H. Filer, Robert Strauss, James Lynn, Peter G. Peterson, Al Ullman, and Elmer Staats are on the Board of Directors.

We understand that the specter of the Constitutional amendment which passed the Senate earlier this year has the potential to force floor consideration of budget process change. We believe that statutory change is vastly preferable to trying to write budget rules into the Constitution. We congratulate Chairman Jones, Congressman Foley, and their co-sponsors for the work they have done toward crafting carefully considered amendments to the Act to improve the process.

"Haste makes waste" may be a cliche, but you should heed its warning when you open up the Budget Act.

There are those who want to kill the budget process. It will not be easy to enact changes which strengthen our budget systems. Success will require prior consensus around the kinds of changes that are necessary and appropriate. That consensus simply does not now exist. And there is not time in the next month to achieve consensus.

Resist the siren song of short-term political gain. Resist the urge to rush to judgment on mechanical devices designed to balance the budget -- be they Constitutional or statutory. Those devices cannot, in any case guarantee the political courage necessary to make the choices required to balance the budget.

Take your time. Do the job right. Never was there a task more worthy of the investment of time and effort. Budgeting is at the very heart of our political system. It is not overstating the case to say that the future of the country may depend on the outcome of this debate.

We are pleased to have an opportunity to appear before you today -- to offer our thoughts on Budget Act reform and on the specific legislation before you. These hearings can further debate on these issues enormously.

We will attempt today to address some of the specific legislative proposals before you -- then speak to the more general concerns of our Committee with regard to any amendments to the Budget Act and process.

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The Constitutional Amendment

S.J. Res 58 (H.J. Res. 350) is not, strictly speaking, a "balanced budget" amendment.

Its focus is at least as much on tax limitation, as on balanced budgets. Moreover, the amendment attempts to ensure balanced budgets by requiring super majority votes to enact "budget statements" (the current law equivalent of which would appear to be budget resolutions) in which outlays exceed revenues.

The language of the amendment does not address budget authority. It does not create any new sanctions against legislation which would create the authority to enter into obligations which could cause expenditures to exceed income. In other words, on the face of it, the Constitutional amendment now pending appears to require that we manage federal fiscal policy on a cash-flow basis (and over a relatively short time period).

The amendment says Congress and the President should ensure that actual outlays do not exceed statement outlays. That's like saying expenditures should not exceed total outlays contained in the most recently adopted budget resolution. We can all remember times when, if Congress had gone home the day after they adopted the budget, outlays would have exceeded the amounts in the budget.

You all know the reasons this is so. It is so much easier to adopt a budget which includes politically attractive totals for spending, revenues and deficits than it is to adopt -- or change -- laws consistent with those totals. The sensitivity of the Federal budget to economic conditions can create wide swings based on relatively small estimating errors. And the very size of our budget makes accurate estimates of total Federal fiscal activity very difficult. (A 10% error factor can account for a $70 billion change at the margin.)

This raises two questions with respect to the Constitutional amendment now pending: Do we really want to try to manage federal outlays as discretely as the drafters of the amendment would have us do? And if that is our intent, how could we do so without extraordinary sanctions against spending legislation which could cause the outlay ceiling to be exceeded? (A final -- and inevitable -- thought on this subject suggests itself: What kinds of judicial review and/or penalties could ensure the application of any Constitutional or statutory sanctions against budget-busting legislation?)

Who would determine -- prospectively -- if the budget were in balance? On what set of economic assumptions would they make that determination? (Rudy Penner has suggested that, as an economist he can almost look forward with glee to the day on which the Supreme Court finds a set of economic assumptions unconstitutional.) And if the courts found a budget unconstitutional, what could they do about it? Should they order Congress to go back and re-do the budget, change the law? Should the courts decide among competing budgets, as they have chosen among competing plans for re-districting? These are not facetious questions.

We cannot afford to be so cynical as to adopt a balanced budget amendment, reap the political rewards of that action, and expect the voting public to accept the inability of the political process to produce the result that amendment required -- no matter how good the reasons for that failure.

We are concerned that confronted with a Constitutional mandate to balance the budget this year, Congress would simply change the accounting system, move spending off-budget, or in some other fashion comply with the letter of the law without substantially altering the role of the Federal government in the economy.

We are concerned that this outcome would undermine public confidence in the political system. That confidence has already suffered erosion, largely because the system cannot seem to come to grips with the decisions necessary to address our economic problems.

We are seriously concerned about the level and trend of the Federal deficit. Congress must act to bring the deficit down substantially. And you must act soon.

Clearly process does effect product. We are concerned about the budget process because we believe it is necessary to orderly, responsible fiscal policy decisions. And a stronger budget process could help offset the biases in the political system toward higher spending and lower taxes, and the resulting deficits. But, as we said at the outset, we favor statutory to Constitutional means for putting in place changes in our budget systems. So let us address some of the statutory changes that have been suggested to help ensure Congress will live within the spending and tax levels you enact in budget resolutions and put a premium on the adoption of balanced budgets.

The Jones Foley Bill

On August 19th, Chairman Jones, Congressman Foley, and others circulated a draft of a statutory approach to a balanced budget requirement. That legislation includes the following provisions:

-- Requires the President to submit a balanced budget (or explain why he does not, based on economic necessity or national security)

-- Requires the Budget Committees to report budget resolutions that are in balance (even if they also report and recommend other resolutions which are not in balance).

-- Establishes priorities the Budget Committees must follow in balancing the budget. Social insurance (including social security) and national defense take priority. Grants to other levels of government get cut first.

-- Requires three-fifths vote to waive the spending ceiling or revenue floor.

-- Reduces to one the number of required budget resolutions each year.

-- Directs Budget Committees to study budget and accounting systems and recommend any changes necessary for the Federal government to operate under a balanced budget.

-- Requires Chairmen of the Budget Committees to agree with a representative of the President on a common set of economic assumptions, and on "trend" GNP.

-- Transitional provisions are intended to reduce spending as a percent of GNP to 20%.

The law used to require the President to submit a balanced budget. [The balanced budget was always buried as a set of not very attractive alternatives to his recommended budget -- and no

President ever used this legal requirement (enacted in 1979) as an excuse to say he had to submit a balanced budget.]

The President's budget is his recommendation and a statement of his program. Its hard to imagine how a change in law would change that, no matter how it is drafted. It might be more useful, from a practical point of view, if the law required the President to explain how and when he recommends the budget should be balanced, if the budget he submits is out of balance.

The requirement that the Budget Committees report a balanced budget had very salutary effects, when it was tried in conjunction with the 1981 budget cycle. Forcing the Budget Committees to go through the choices necessary to report a balanced budget may help point the way to the compromises necessary to achieve that objective -- even if it cannot be reached in the current year. Making the Committee -- and Congress -- choose between a balanced, and an unbalanced, budget loads the process in favor of the former.

A word of caution may apply, however, the temptation to vote for a balanced budget could be so strong as to ensure that budget is adopted each year -- whether or not Congress is prepared to change the law to live within the limits it prescribes.

The attempt to write budget priorities into law is unwise. The language of the Jones Foley draft recognizes what are the overwhelming political imperatives of our times. And it is arguable that those imperatives are likely to remain so strong as to make moot reservations about writing them into law. But well-intended actions such as this have a way of producing unanticipated, unattractive, consequences. An analogy might be drawn to the indexing of entitlement programs, which was intended to save money. It didn't turn out that way. And no one on the Budget Committee needs to be reminded how difficult it is to undo that kind of legislation once it becomes law.

Our Committee supports moving to a single compulsory budget resolution each fiscal year. The budget debate has dominated the Congressional Calendar to an extraordinary extent in recent years. This would not foreclose Congress' option to consider a subsequent resolution, if that seemed appropriate, sometime later in the fiscal year. In fact, the Jones Foley proposal explicitly recognizes that Congress can revise the budget as often, and whenever, it finds such action necessary. (As a practical matter, Congress has revised the second resolution in the Spring, two-thirds of the way through the fiscal year, in FY 1978, FY 1980, FY 1981 and FY 1982.)

Clearly, Congress can alter the budget when it is convinced of the necessity to do so. And equally clearly a compulsory revision in the Fall has not forestalled the need to revisit the budget yet again later in the year. Why, therefore, schedule two resolutions and start adding from there? Why not do the job once, in the Spring, and only revise the budget thereafter if there is a solid case for doing so?

The Jones Foley draft would make the first budget resolution binding. This approach might have the salutary effect of encouraging more serious attention to the accuracy and credibility of the numbers in the Spring resolution.

Until last year, Congress may have made mistakes, but we never passed a binding budget resolution within which we knew we could not live and said so when we voted on it.

On the other hand, the Congressional record is full of debate on first budget resolutions to the effect that, "if we cannot live within these totals, we shall have the opportunity to change them when we consider the second resolution in the Fall."

Many of us have said in the past, Congress has an obligation to act on budget resolutions as required under the Act, if only to preserve our own budget process. But let us say now, about budget resolutions with which we cannot live in general -- and about the second budget resolution for FY 1982 in particular -- neither the budget process, nor Congress, is well served by adopting completely unrealistic budget resolutions.

A sound budget process presupposes credible budgets; and anything which has the effect of causing Congress to give serious thought to the constraints implied by budget resolutions when those resolutions are adopted, would be salutary indeed in our view.

The Jones Foley draft proposal would accomplish this objective and its clear, explicit, recognition of the ability of Congress to revise budgets as necessary should assuage the concerns of those who worry that adopting a binding budget in the Spring could put fiscal policy in a straight jacket.

The requirement in the Jones Foley proposal that both Houses and the Administration agree on a set of economic assumptions could be a major contributing factor to making the budget debate more understandable, as well as to focusing the budget debate on policy instead of numbers differences.

Two areas of budget process concern, to which the Jones Foley proposal does not speak, and to which Budget Act amendments should address themselves if they are to encourage balanced budgets are: Credit budgets and off-budget expenditures; and enforcement of the budget at some level below the aggregates.

Any discussion of credit budgets has two components. Credit programs are somewhat different than direct expenditure programs. As the word credit implies, we expect repayment of some or all of the cost we incur in conjunction with these programs. That feature of credit programs suggests a different accounting system for them -- thus the discussion of a "credit budget".

The off-budget aspect of much Federal credit activity, however, raises a whole additional set of issues. The table on the next page lists off-budget entities of the Federal government, and the Administration estimates of the outlays of each 1981 - 1985.

Clearly, the Federal Financing Bank is the largest off-budget entity of the Federal government. It has become a conduit through spending in many programs which appear in the budget is moved off-budget.

The Strategic Petroleum Reserve was moved off-budget just last year, to avoid a decision either to cut that program, to cut something else, or to bust the budget. The other programs which fall into the off-budget category are there largely because their proponents want to avoid budget scrutiny of them.

This is the most insidious aspect of off-budget activity. It avoids scrutiny. And the temptation to engage in more, not less, of this kind of gimmickry will increase if Congress adopts a Constitutional amendment or statute designed to ensure a balanced budget.

TABLE: OUTLAYS OF OFF-BUDGET FEDERAL ENTITIES (By fiscal year, in billions of dollars) 1/

	Actual 1981	Administration Estimates			
		1982	1983	1984	1985
Federal Financing Bank	21.0	16.2	12.1	11.0	7.8
Strategic Petroleum Reserve	---	2.8	2.8	2.3	2.2
Postal Service Fund	0.1	0.6	0.7	0.9	0.8
Rural Electrification and Telephone Revolving Fund	*	---	---	---	---
Rural Telephone Bank	0.1	0.2	0.2	0.2	0.2
U.S. Railway Association	-0.3	-0.1	*	---	---
Synthetic Fuels Corporation	---	---	---	---	---
Total	21.0	19.7	15.7	14.3	11.0

*Less than $50 million.

The Mineta Bethune Bill

The Mineta Bethune bill would amend the Budget Act to require binding credit budgets be adopted, when Congress agrees to regular budget resolutions. The Mineta Bethune bill has made a major contribution to the debate on credit budgeting -- and credit activity comprises the vast majority of all off-budget expenditures. It is endorsed by the Federal Reserve Board, and by a whole list of others who are knowledgeable and concerned about the problems of growth and controllability in this area.

The one significant shortcoming of the Mineta Bethune Bill is that it does not deal with the question of how credit activity should be reduced, if it must be reduced to stay within limits adopted.

Many credit programs act like entitlements, i.e., the underlying legislation creating these programs specifies loan levels and interest rates for which defined classes of borrowers

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1/ An Analysis of the President's Budgetary Proposals for Fiscal Year 1983, The Congressional Budget Office, page 24 qualify. Absent some mechanism to force revision of these provisions, credit limits below the amounts necessary to fully fund loans for all eligible applicants who apply would imply that those who applied early in the year would get all the law allowed -- while those who applied later might get nothing -- and none of these decisions would have anything to do with whatever priorities Congress might place on the competing needs of people who applied at different times during the year.

It seems that what is needed to control credit activity, in addition to an enforceable credit budget, is a mechanism to allocate available credit by function, program or category -- and a coherent mechanism for rationing credit, if what is available is less than what would be necessary to fund all the credit programs on the books.

Budget Enforcement Below the Aggregates

A major shortcoming of our existing budget process -- and one which is not addressed by the Jones Foley draft proposal -- is that the budget is really only enforceable when it has been "busted".

Section 311 of the Budget Act created a point of order against any bill or resolution which would cause the budget authority and/or outlay ceilings in a second (or subsequent) budget resolution to be exceeded, or which would cause revenues to fall below the floor in such a resolution.

By and large that point of order has prevented consideration of such legislation -- but only at the point when all the spending (or tax cuts) which can be accommodated within the totals in the resolution have already been enacted.

The Jones Foley proposal would make it harder to waive the spending ceiling or the revenue floor. It would require super majority votes to do so.

But nothing in Jones Foley would prevent enactment of a new entitlement, of a direct spending bill, or of an appropriation, in June, July or August -- when there is still plenty of "room" within the budget ceiling:

-- even if the new spending were included in neither the President's Budget, nor the recommendations of the committee of jurisdiction, at the time the budget was enacted; and

-- even if the bill in question would commit billions of dollars for a purpose or program never contemplated when the budget was adopted; and

-- even if the effect of enacting such a bill would be to deny necessary funds for high priority purposes explicitly recognized and included when the budget was adopted.

For example, someone could propose in July -- never having suggested such action earlier in the year -- an entitlement program for expense accounts for former Members of Congress, make the argument that their contribution to passage of the tax bill this year was essential to the enactment of responsible fiscal policy, but that it was so costly to the former Members as to preclude their continuing contribution to good government unless the public helped by picking up the tab for some of their out-of-pocket expenses. The committee with jurisdiction over benefits for former Members could look at the arguments, say that makes a lot of sense, and report the bill. Congress could pass it. CBO might estimate its cost at $1.5 billion over the next three years.

Once the bill was signed into law, CBO would have to include its cost in scorekeeping. The effect of doing so would be to reduce by $1.5 billion funds available for other purposes -- purposes which might include pay for Federal employees, jobs for the elderly, a new submarine, or something else Congress specifically took into account in deciding the budget totals and the relative priority of functions and programs within the budget.

This system rewards speed. It encourages Members and committees that might want to push potentially costly bills to take them to the floor as early in the session as possible. It also encourages the tendency to take lower priority bills to the floor early in the Summer -- saving for consideration later in the year bills for very high priority purposes, for which they are virtually certain Congress will provide -- even if it means busting the budget.

What is needed is a system which allows Congress to measure the impact of all bills equally -- when they are considered. Delayed enrollment has been a major step forward toward this objective, with respect to appropriations bills. But even the delayed enrollment provisions included in budget resolutions over the last three years, pertained to bills only if they would cause a committee's or a sub-committee's allocation to be exceeded. And they did not preclude consideration, nor enactment, of such legislation. The bills can still be passed by both Houses, conferenced, and the conference agreements on them can be passed. After all that, they are held -- on the presumption that when Congress considers another budget resolution it will either make room for them, or order the Clerk of the House or the Secretary of the Senate to change them to conform to the budget.

Delayed enrollment has substantially reduced the propensity to consider such legislation. But everyone knows that, if a bill is once passed and the conference report agreed to, it is highly likely any subsequent budget will accommodate its cost -- rather than requiring changes in it.

If Congress is to live within the budgets it adopts, the basic tool to enforce the budget must be available for use before all the money we have has been spent.

There are really three alternatives for doing this. You could be much more specific about the amounts included in the budgets for particular programs and agencies. We think this would be most unwise. The budget process cannot take on the work of all other committees of Congress or it will fail of its own weight, and because of their resentment.

We could attempt to control the budget by function. But there are real drawbacks to this approach. The allocation of funds within a given function cuts across committee jurisdictions. And with the "netting" in the budget, total outlays for a function may be less than the total of all outlays for all programs within the function -- before offsetting receipts are taken into account in the programs to which they apply.

There remains the possibility of using 302 allocations for this purpose. Deferred enrollment has operated quite well based on these allocations.

There are good reasons for this. Bills originate in committees. All committees receive 302 allocations of the funds in the budget for programs over which they have spending jurisdiction. (The committees allocate the funds they have among their own subcommittees).

If you enforced the point of order, with respect to legislation which would cause a committee's or a subcommittee's 302 allocation to be exceeded, committees would have to either stay within their allocations (for the total of all programs within their jurisdication), get another committee to give up something to make room for high priority legislation, or under the Jones Foley proposal they would have to muster a three-fifths vote to waive the point of order against any bill which would cause total spending within their committee's jurisdiction to exceed the amounts in the budget for their programs.

This could substantially improve the prospect of Congress staying within the budget once adopted. It would allow enforcement of the budget, before we run out of money, but without requiring the Budget Committees to get into great detail about programs. Finally , it would help ensure that each committee has available to it all the funds in the budget for programs in its spending jurisdiction -- that no one else would get to the floor first with a bill the passage of which has the effect of foreclosing consideration of legislation contemplated in the budget.

Reconciliation

Our Committee supports reconciliation as a necessary part of the budget process. We know there have been complaints about the way reconciliation was used in the 1981 budget cycle. Some of those complaints were well-founded. Reconciliation should not be used to enact, nor change, non-budget related provisions of law. On the other hand, a meaningful budget process requires a mechanism for reconciling the total of individual spending and tax decisions with Congressionally determined aggregate fiscal policy.

For the last three years, almost everyone has agreed we need to cut federal spending. There are differences of opinion as to what should be cut, and as to the depth of the cuts, but almost everyone agreed we had to do something. We could not have cut as we did (and particularly we could not have cut entitlements such as federal retirement, medicaid, and student loans -- much less have raised taxes as we did this year) without an action forcing mechanism.

And reconcilation is an action forcing mechanism. It allows Congress -- not the Budget Committees and not the Administration -- to decide what it wants done. The reconciliation instructions are included in a budget resolution that requires agreement of both Houses. But once Congress agrees on a resolution including reconciliation instructions, it tells committees to report legislation to increase or decrease spending and/ or taxes by specified amounts, and to report that legislation within a specified time. Congress can, of course, dispose of the reported legislation as it chooses. Nothing compels the House, the Senate, nor the conference to accept the recommendations of any committee.

Reconciliation establishes a set of rules, including time limits and special procedures for debate, to expedite consideration of legislation to accomplish very specific objectives -- once Congress determines those objectives are so compelling as to require the use of this extraordinary procedure.

We are still learning to use the reconciliation process. We may want to consider refinements to help ensure reconciliation legislation is confined to budgetary matters, rather than broad legislation and/or authorizations unrelated to the reconcilation instructions.

The 1981 reconciliation bill, for instance, provided authority for the Student Loan Marketing Association (SALLIE MAE) to issue tax exempt bonds. No federal, nor quasi-federal agency had such authority prior to the reconciliation bill. There were no hearings on the issue. No consideration was given to the possible influence on other similar agencies and their practices. Indeed, many who would have been interested did not know that provision was included in the bill. The reconciliation bill in 1981 substantially changed Federal communications law, and included several other non-budget related provisions.

But this year's budget legislation seems to have avoided the pitfalls in 1981. It may be that having experienced this particular problem provided its own remedy. There is little consensus as to how one would draft an amendment to the Budget Act to preclude non-budget related matter from reconciliation legislation. That being the case, and given this year's experience, you may want to leave well enough alone.

Biennial Budgeting

There are three Senate bills, and several House measures which would change the budget-cycle from one year to two. Rather than commenting on specific pieces of legislation, let us address the concept of biennial budgeting.

For the record I (Senator Bellmon) co-sponsored biennial budgeting legislation with Senator Baker, before I retired. I have long been convinced we could improve the effectiveness of Congressmen and Senators if we could only reduce their work load by devoting one year of each Congress to authorizations and oversight and the other to budget matters.

Having thought about it for a while, however, it seems clear that biennial budgeting will only work if we also go to biennial appropriations.

There will always be supplemental appropriations. But the regular appropriations cycle must coincide with the budget cycle.

Also, a logical two-year budget process would have the first session of each Congress devoted to money matters; and the second session set aside for authorizations and oversight.

The reasons for this are two:

Each new Congress and each new President will want to mold their own budgets. Congress will not want to live with budgets adopted by their predecessors; and Presidents won't want to wait two years to put their programs in place.

And we have found through experience, the only way we can hope to live within a budget is to first decide how much we are going to tax and spend -- then pass the necessary legislation to stay within those bounds. This logical progression would be maintained, if the first session of each Congress were devoted to budget matters and the second to non-budget related legislative matters.

Symposia on Proposed Changes in the Budget Act and Process

We have held two symposia on the subject of how we can improve the budget process. A compendium and proceedings from the first of those meetings is now available. Each Member's office should have received a copy. We have additional copies available, if any of you need them. We hope they will be useful to you in your deliberations.

Chatham Press will publish a book based on the second symposium. It should be available early next year. And we will send each Member a copy. Sometime this Fall there will be available a summary of that conference. And you will get copies of that also.

To those of you who participated in those meetings, we thank you.

To those of you who have not yet attended one, we welcome your participation in meetings we will host in the future.

We sincerely hope that these meetings and materials (and the Congressional breakfasts we hold from time to time) help provide support for -- and help to strengthen the budget process. That is why we exist.

Please let us know if there is any other way in which we may be helpful to you as you undertake this very important review of the Budget Act and process. We want to help in any way we can. Thank you.

TALKING POINTS -- ROBERT N. GIAIMO

Don't Amend the Budget Act This Year

First, let me re-iterate what our prepared testimony says: "Don't try to amend the Budget Act and process this year."

-- Don't be lulled by the political pressure for a Constitutional Amendment to balance the budget into thinking it will be easy to pass amendments to strengthen the Budget Act.

-- Don't sell short the strength of the sentiment to kill the Budget Act and process altogether.

> We were very pleased to hear that you, Mr. Chairman (Congressman Beilenson), said last week that the work of this task force has convinced you any changes in the Budget Act and process should be designed to strengthen our budgetary control systems. Clearly, that view is shared by our Committee.
>
> We were equally pleased to hear that the Chairman of the Committee of the Democratic Caucus which oversees such matters (Congressman Frost) said last week that he believes any changes in the budget process should be made by legislation reported by the Rules Committee and duly considered in the House legislation reported by the Rules Committee and duly considered in the House -- not by some ad hoc rules changes endorsed by the Caucus. We also endorse that position.
>
> The Helen Dewar article in the Post Saturday before last made it clear there are those who are determined to bury the budget process altogether. Make no mistake about it, the legislation described in that article as a House staff effort to "reform" the budget process is nothing more nor less than an all out assault on any meaningful budgetary control system.

The Jones Foley Bill

We are glad the House leadership, and a bipartisan group of House Members, is working on a statutory approach to a balanced budget requirement.

-- As we say in our prepared testimony, we are convinced that no set of rules, no budget process (constitutional not statutory) can compel politicians to do the politically impossible.

-- We are concerned that, faced with a balanced budget constitutional requirement, and unable to balance the unified budget, Congress would create a capital budget, invent more credit programs, move spending off-budget, or in some other manner meet the constitutional mandate -- without significantly altering the role of the federal government in the economy.

-- On the other hand, we are convinced a way must be found to move the federal budget toward balance. We prefer statutory to constitutional approaches to ensure this objective because our experience has taught us we can refine statutes as we go along -- to meet changing necessities. We fear we could not refine the constitution as necessary -- and the resulting difference between what the constitution required and that Congress could produce might cause real cynicism among people who are already dubious of our government's ability to come to grips with the hard choices necessary to prudently manage the nation's fiscal policy.

Off Budget/Credit Budget Financing -- The Mineta Bethune Bill

-- I am also glad to see a bipartisan approach evolving to deal with the problem of off budget programs, the vast majority of which are credit activities. Outlays for off budget entities will exceed $20 billion this year.

-- Whenever we talk of tightening up the budget rules (either by Constitution or by statute) to require or encourage balanced budgets, we must be aware of the danger that Congress could be tempted by such rule changes to move even more spending off budget.

-- The only way to avoid that potential problem is to consider how to control off budget activity, at the same time we consider changes in the Budget Act and process (for Federal programs and expenditures now included in the budget).

-- Our prepared testimony speaks to some of our specific concerns about the Mineta Bethune bill. But that bill is a major step in the right direction. Our Committee supports moving as fast as possible toward an enforceable credit budget. (Achieving that objective would eliminate 90% of the problems that now exist due to off budget activity.) And the Mineta Bethune bill, which has broad based support is designed to accomplish that end.

Budget Enforcement Below the Aggregates

-- Frequently when someone suggests changes in the budget process to improve our ability to enforce budget resolutions once they are adopted someone else says: You can't do that. It would be seen as a power grab by the Budget Committees.

-- Let me first say, you cannot achieve budget balance unless you use the budget process, and use the process to help ensure Congress lives within its own budget once they are adopted.

-- Then let me say, you can't make up a budget without some assumptions about the programs for which you have to provide funds within the resolution.

1) Having said that, let me say I think the Budget Committees should avoid like the plague making program specific assumptions.

2) So how do you tell whether there is "room" in the budget for a specific program, when the House or Senate is considering a bill which will cost money?

-- In our prepared testimony, we argue for a point of order against bills which would exceed the amounts in the budget for (total) spending in the jurisdiction of the Committee reporting a particular spending bill.

1) This is the same basis as that on which deferred enrollment has applied -- except the point of order would keep the House or Senate from passing the bill unless they took money from somewhere else to pay for it, or unless they waived the ceiling.

2) It would provide the House and Senate a way to measure the budget impact of individual bills, when those bills were on the floor of either House, and before all the funds in the budget were subscribed.

3) It would apply to all bills, not to just appropriations bills.

4) It would allow you to enforce the budget below aggregate budget authority and outlay levels, without forcing the Budget Committees to take positions on funding levels for particular programs included in the budget resolution.

Reconciliation

- You need reconciliation.
- You need reconciliation on the first resolution.
- And that leads me to say you should -- you must -- make the first budget resolution binding.

Binding First Resolution

- You for all practical purposes made the first budget resolution binding this year. You also, for all practical purposes, eliminated the second budget resolution this year. You did both of these things, with the "automatic second resolution" language in the budget you adopted.
- You should make these permanent features of any budgets you adopt in the future.
- We have revised the budget in the spring almost every year, requiring a third budget resolution.
- Congress can always adopt a new or revised budget, whenever it thinks it is necessary to do so.
- There should be only one compulsory, binding, budget resolution required each year. And Congress should try to live within that budget -- and only change the budget when there is a compelling case for doing so.

Temporary versus Permanent Status for House Budget Committee Members (and Chairmen)

- Let me take advantage of this opportunity, and of my status as a former Member and Chairman of the Committee -- who now has nothing to gain nor lose, and no ax to grind, -- to say you really should make Membership (and the Chairmanship) of your Committee permanent.

    1) Look at the Members you will lose this year, and at the end of the next Congress. In many cases they are the very Members who are the most knowledgeable about the budget, and who have been the most active in budget matters for several years.

    2) The temporary nature of Membership on the Budget Committee provides no built in incentive for Members to spend the time it takes to become knowledgeable about the Committee's affairs and the decisions you must make.

       And it guarantees you, when a Member does take the time to learn and contribute (even absent real incentives to do so) he won't be around for very long -- so the Committee will never reap the rewards it should from that effort.

    3) Your Chairman is at a serious disadvantage dealing with other House Chairmen. They know he won't be around forever. They simply do not have to consider his interests, not his Committee's interests, as they have to consider on another's.

    4) And your Chairman, and your Committee, are at a serious disadvantage vis a vis the Senate Budget Committee (which does have permanent membership, and which does have a permanent Chairman.)

       That means the House is at a disadvantage, when we go to conference with the Senate. You may not wish to acknowledge it but Senator Domenici has an important resource you lack. He has a core of Members, who have a substantial investment in the success of the budget process and of the Budget Committee, the success of the budget process and of the Budget Committee, who will fight with him for their position -- in conference and on the floor of the Senate. You should be in the same position.

Deficits -- What Our Committee Plans To Do

-- I cannot confine my remarks today entirely to Budget Act amendments and budget process changes. The deficits we face are crushing the economy. Congress and the Administration must agree on a program to cut the deficit substantially -- and you must act soon to put such a program in place.

-- I've not been out of Congress so long that I don't remember the pressures under which you operate.

-- I know the decisions you face are incredibly difficult.

-- Because I understand, and because the other members of the Board of our Committee understand, we have decided to mount a major public education campaign.

1) We hope to help explain just how bad the deficit situation really is.

2) We hope to help people understand how few options you have to really reduce the deficit -- that those options inevitably include moderating the increases in defense and entitlements and increasing taxes.

3) We do not propose to offer a specific deficit reduction program. We believe the political process will produce a solution, if people are prepared to live with the results of the decisions that simply must be made.

4) We hope, and this is the reason we have decided to proceed with this program, to help create a climate of public opinion in which those of you who are working to reduce the deficit will have more public support for what you must do.

Indexing

-- I say the following on my own behalf, not on behalf of the Committee, not because I think the Members of the Board of the Committee would disagree, but because our Board has not specifically addressed the issue.

1) At the heart of your long term deficit problem are two mutually inconsistent public policies, enacted just about ten years apart.

o Without even arguing whether taxes or spending should be indexed at all, it is clear that you cannot index spending to a set of economic indicators which drives outlays up with inflation -- and index taxes to ensure they do not rise with inflation -- and expect anything but red ink as a result.

o I fear greatly a resurgence of inflation, unless you act quickly to reduce the deficit. And the ways in which the tax code and spending are indexed virtually guarantees another round of inflation. You've got to do something about that.

2) You can fix that, either by eliminating indexing altogether; or by adopting conventions for indexing to ensure that spending does not outstrip income.

-- Almost everyone who has ever worked with budgeting, and particularly those of you who were responsible for budgets during the years of double digit inflation are painfully aware of the effects of spending increases indexed to the consumer price index. What I am suggesting to you is that, you must be careful (not only in the index you adopt when you put spending and/or revenues on automatic pilot but) that any indexing on one side of the budget is consistent with the treatment of the other side of the budget. Because, like it or not, it is the relationship of revenues and spending that create deficits or surpluses.

Mr. GIAIMO. I have some talking points also that I believe the staff submitted to you.

The first point I think is a good one and that is don't amend the Budget Act this year. I think you can do most of the changes that you have done without an amendment of the act.

You now have a first budget resolution which is binding. I think that it is a good, forward, positive step. What you can do by rule rather than opening the act, I suggest you do.

I have some other reasons for taking this position, which are set forth in the talking points. I won't go into those at this point.

Mr. Chairman, I want to commend you and Congressman Marty Frost for the statements which you recently made about trying to have an effective budget process and Mr. Frost's statement that it should be done at the time of deliberation by this task force and not by some quick action in a caucus which may and undoubtedly will take place later this year.

I make reference to the Helen Dewar article in the Washington Post of a few weeks ago which indicates that there is an effort by some staff people to rewrite the Budget Act which, frankly, would effectively do away with the act, in my opinion.

I hardly think that it is a contribution toward budget reform but rather one that would do serious harm to Congress' real effort to get control over Federal spending which is basically what the budget process is about.

And I agree with just about everything Alice said that the process is working. Sure it is not working easily. Nothing that Congress does is coming easy these days.

How can it with a $150 billion deficit? You can do all kinds of things, get rid of the process, go off budget, have capital budgets, all kinds of things, but you are still going to have that $150 billion out there and you are going to have $600 billion in the next 4 years estimated unless we do something substantial.

Let me also say, Mr. Chairman, that the Committee for a Responsible Federal Budget of which I am cochairman with Senator Henry Bellmon, who retired from the Senate in 1980, as ranking Republican member of the Senate Budget Committee and he is a cosponsor and coauthor of the testimony which we have submitted to you here today, let me say, Mr. Chairman, I offer this testimony on behalf of the committee and of Senator Bellmon, as well as on my own behalf.

I am speaking for the committee, particularly for Senator Bellmon, who was the former ranking member of the Senate Budget Committee.

Our committee supports the Jones-Foley approach which is a statutory solution to your balanced budget problems rather than a constitutional amendment method of finding a solution to that problem.

Our committee also supports the efforts of Congressmen Mineta and Bethune for some years now to bring on-budget all off-budget, credit budget financing.

That is a serious problem that is now at a level of about $20 billion a year. I think the past commitments all add up to somewhere in the neighborhood of $100 billion, if my memory is correct, and it is something that should not be left off-budget as a contingent liability but something that should be brought on-budget.

The whole question of budget enforcement below the aggregates is a fascinating one. You developed it earlier today, I believe, with Alice Rivlin.

If you wish we can make my talking points part of the record.

Let me just speak of the budget enforcement below the aggregates. The problem is it is a difficult one. First of all, you don't want to make the Budget Committee the super committee of the Congress. And, therefore, the Budget Committee should not subject itself to the charge that its line iteming and should not get too specific. Nevertheless, if its numbers are going to mean anything when they develop what the functional aggregates will be, they have to reflect what they think actions of the Congress will be and the various functions. So they are not something made up out of thin air.

They reflect that defense is going to need *x* dollars because it is going to do A, B, C, and D, and it is the same way in the other categories.

If they get overly specific, they are open to the charge of encroachment and line iteming.

If they don't get specific to some degree, then, of course, they are open to the charge that their numbers don't mean anything and don't reflect reality.

So they always have to walk this fine line.

I think basically Congress and its committees and the Budget Committees do a relatively good job of agreeing on what the various functional amounts should be.

The problem arises when Congress, early in its year, comes up with legislation which costs money that no one contemplated for that year. And because it comes in early, as you know, it doesn't breach the ceilings but it does crowd out something that is coming in later.

In the case of appropriations, you have ways of handling it, one of which is a deferred enrollment. We suggest that there ought to be a way that you could attack this problem so that something that comes in which was not contemplated by either the Budget Committee or the authorizing and spending committees or entitlement committees, is addressed so that if it is to come up either there could be a point of order against it even though it is below the aggregate or that it would have to borrow from one of the other committees amounts which would perhaps be excess but in some way there ought to be some control over that.

And we explore that to some degree although it is not easy to come up with a recommended solution and answer to that problem.

In the area of reconciliation, we firmly, strongly, believe that you need reconciliation. We really believe you need it in the first resolution as Congress has demonstrated now, I guess for several years. This year, last year, and the last year that I was here we had a reconciliation bill.

And as I said earlier, reconciliation should be in the first budget resolution if it is to be effective and mean anything.

Reconciliation is a tool, a very strong legislative tool that forces the Congress, and more particularly forces its committees to do something in the area of spending, entitlements, or taxes.

It forces them to change substantive law. It forces them to do it in an extraordinary manner outside of the normal committee procedures. And, of course, because of that fact, it creates problems.

But I think it is an essential tool when you are faced with the crisis that you are faced with with these very heavy, massive deficits that the Government has at the same time.

I said earlier in my testimony that the first budget resolution should be a binding resolution. I think you have accomplished that this year. I commend you and the entire Congress for it.

Witness the fact that you made your major budgetary decisions earlier in the year, set out your priorities, adopted them after great conflict and controversy and you have got them behind you and thank goodness you don't have to go through them again now in the fall as you did last year very late in the year.

So I say that is clearly the correct way to go. There may be a need to change the first budget resolution but I think that can be done later on as we do anyway, and have to do well into the fiscal year. We now do it with the third budget resolution.

Perhaps some way can be found to speed up that third budget resolution. I recognize the necessity and the desirability of changing some assumptions in the budget resolution, the first one that you adopt, economic assumptions and things of that type, and I urge you to try to find some way to do it.

It is not easy to do. Bear in mind that this is always a problem in government spending and in governmental budgets and I know there is no easy solution to it.

I am not so sure there is even a difficult solution to it.

I remember just about three weeks ago when I heard the rumor that the CCC estimates were up about $6 billion for the 1983 fiscal year. This is going to happen in a budget of this magnitude.

Your assumptions could change from week to week and month to month.

You are going to have to try to find some way to update your assumptions. But certainly I don't think that having a second budget resolution in September with all that that carries along with it is the way to go or renders any real service.

So I would urge a continuation of the binding first budget resolution.

I think it is essential to have a binding resolution out there. I have great respect, for example, for Mr. Gephardt and Mr. Obey who have a different approach. I don't pretend to be an authority on their approach. I think it merits study by your group.

I know their intentions are to have a more effective process for the entire Congress. What worries me when we get away from a binding first budget resolution is this: I am clearly convinced that Congress needs a discipline and anything which takes away from that discipline weakens the process.

It is bitter medicine, it is tough. There is no question about it. And if a lot of people could have their druthers they would rather not have the discipline. And I am a little concerned about suggestions which allow spending committees, either entitlement or appropriations, to proceed to any degree before you have arrived first at how much do you want to spend this year, next year, or how much can we afford to spend or how much can we afford to borrow, which is really the gut question that confronts us as long as we are in this period of very high deficits.

So, from that standpoint, I lean toward the existing method you are using which is to have a binding resolution in place and then go on to your spending and entitlement bills and see that they fit into that judgment which Congress made, not the Budget Committees.

So, from that standpoint, I can't stress too much the importance of a binding first budget resolution in place.

I then wish to mention the issue of temporary versus permanent status for the House Budget Committee members. Let me, here, take advantage of this opportunity of my status as a former member and chairman of the committee who now has nothing to gain or lose and no ax to grind to say that you really should make membership and the chairmanship of your committee permanent.

If you recall the history of this Act you will know that there had to be compromises in order to get it adopted in the House and for those reasons, you had a temporary committee, temporary membership and temporary chairman.

Look at the members you will lose this year and at the end of the next Congress. In many cases they are the very members who are most knowledgeable about the budget and who have been the most active in budget matters for several years.

The temporary nature of membership provides no built-in incentive for members to take the time to become knowledgeable about the committee's affairs and the decisions that you could make.

It guarantees you when a member does take the time to learn and contribute that he won't be around for very long so the committee will never reap the rewards it should from that effort.

Your chairman is at a serious disadvantage dealing with other House chairmen. They know he won't be around forever. They simply do not have to consider his interests or his committee's interests as they have to consider one another.

In fact, he has to go to them, politically, to seek election or reelection which is something that other chairmen do, as you know, but with the tradition or with an affirmative presumption on their part that if they are not doing something wrong they are going to be reaffirmed in their chairmanship.

And, of course, your chairman and the committee is at a serious disadvantage vis-a-vis the Senate Budget Committee which does have permanent membership and a permanent chairman.

From my experience I have found that it means that the House is at a disadvantage when we go to conference with the Senate. You may not wish to acknowledge it but Senator Domenici has an important resource which we lack on the House side because of the temporary nature of the committee as a corps of members with a substantial investment in the budget process and in the Budget Committee, the success of the budget process and of the Budget Committee who will fight with him for their position in conference and on the floor of the House. You should be in the same position.

This doesn't mean to say that your members of the committee have not fought hard for the process. They have. In fact, we have had, in my opinion, some of the most outstanding Members of the House on your Budget Committee. But, nevertheless, I know from personal experience that some of them have had a divided loyalty because of the other committee that they were assigned to and their actions on the Budget Committee and it subjects them to all kinds of inter-House political pressures or it could and it is not something that bodes well for the future.

I think it would be better if we are going to have a series of permanent committees here that the Budget Committee should be permanent also.

I believe, Mr. Chairman, that I will stop at this point. There is one other point that I have in my talking papers which tells you that our Committee for a Responsible Federal Budget, which is dedicated and determined to try to help this budget process along because we think it needs help and because we think it is vital and essential and because it is a great step by Congress to act more responsibly in the whole area of Federal spending and deficit financing and that we are going out in an educational program to try and educate, inform the media, the opinion-makers and as many people as we can reach within the confines of limited budgets ourselves with the American people.

Mr. **Beilenson**. Is there anything in your educational program about pointing out to the American people that we have inadequate revenues to do what they want us to do?

In all seriousness, if you add up the programs that everybody insists we should have you don't have enough revenue to pay for it.

Mr. **Giaimo**. I understand.

As you know, the answer to that is they will tell you to cut the other fellows.

Mr. **Beilenson**. We are almost at the point now, Bob, where we don't have that answer any more. People can't point to many things that they want you to cut.

If you cut the whole welfare program out, you would cut only about 3 percent of the budget. It is so small. Everybody wants a strong defense, everyone wants social security. If you add to those two items the interest on the debt, together they soon will amount to 80 percent of the budget. Everyone wants and FBI and a space program and national park system and several other things.

We have really gotten very close to the point already where there is very little that people can agree upon that ought to be cut further.

The fact of the matter is that I think we have reached the point where we are spending for programs that most people support and we don't have enough money to pay for them and I think we have to face up to that part of the problem.

Mr. **Giaimo**. I think you have got a serious job ahead of you. If this year and last year was difficult, I predict that next year when you are going to have to look at entitlements, is going to be horrendous.

Mr. **Beilenson**. I certainly hope that you and Mr. Bellmon will be back to help us.

Mr. **Giaimo**. We will be back to help you as private citizens.

I went to a couple of senior citizens meetings in the last 3 weeks campaigning with our friend Toby Moffett, and I have to tell you they want more and more and more. But by the same token——

Mr. **Beilenson**. And there are more and more and more of them.

Mr. **Giaimo**. I know. But I think you are going to have to now look at things like social security, for example, and medicare, and begin to ask questions, should everyone be treated the same, irrespective of how much he or she has?

I know examples and cases of people who are not wealthy but they are reasonably well off and who get massive hospital bills of which medicare pays everything but $30.

Mr. **Beilenson**. I think most of us agree but whether most of us will vote that way I don't know. Why shouldn't some people's social security benefits be taxed if they have $1 million?

You start talking about that, you lose your next election.

Mr. **Giaimo**. Why should unearned income not count in social security benefits? There are all kinds of questions that I don't think you are going to address until you are forced to by economic pressure and reality but I think you are going to have to.

Mr. **Beilenson**. Mr. Rhodes?

Mr. **Rhodes**. I just want to thank my good friend and former colleague for bringing his wisdom to us. He was an outstanding chairman of the Budget Committee and certainly knows the problems as well as anybody possibly could.

I got in late, but as I understand it, Bob, you did say, No. 1, that the first budget resolution ought to be binding.

I am not clear as to whether you thought the second budget resolution should be done away with or whether it should be used only for amending the first budget resolution as required.

Mr. **Giaimo**. Well, temporarily, until your committee decides otherwise, I agree with what you did this year, and that is, as I understand it, you passed a first budget resolution and you said that if we don't adopt a second one in September the first one is it.

So that eliminates the second.

Now, whether you want to change the basic act, I certainly wouldn't recommend changing the act at this time because when you get into changing the act you are going to do a lot of other things and I would like to see that done deliberately and comely after this committee completes its study and I guess that doesn't mean this year.

I suspect it means you are going to go on to next year. So, therefore, you eliminate the second budget resolution by rule rather than by change in the act and that is fine with me and with our group.

That is the way I think to do it and what you have done, too, for the first time is you have really established the principle in that first budget.

You did two real good things this year. You established the first budget resolution can be the binding one and you also established that reconciliation can be a proper tool in the first budget resolution .

Mr. **Rhodes**. Do you think that reconciliation in the first budget resolution has to be confined to reconciliation involving basic legislation as distinguished from appropriations because you don't have any appropriations yet?

Mr. GIAIMO. That is right. Basically, the reconciliation tool is designed to change existing laws and more to change entitlements rather than appropriations, I believe.

Mr. RHODES. Well, I, for one, believe that the second budget resolution should be left on the books. I agree that what we did this year was wise. But I think it ought to be left on the books to guard against the possibility that appropriations bills in excess of the amounts provided in the first budget resolution would be brought up and passed in which event the reconciliation process could be a means of either restoring the original figure or agreeing that the original figure was too low and needs to be amended.

Mr. GIAIMO. But then if they were in excess of the first budget resolution they would be in violation, wouldn't they?

Mr. RHODES. But they would still have been law because they were brought up one at a time. And that brings me to another question.

Mr. GIAIMO. That brings you, then, to the question of deferred enrollments and tools of that type which we favored.

Mr. RHODES. I certainly favor them. I think it is absolutely necessary to keep the last appropriation bill from being the victim of chicanery on others.

Mr. GIAIMO. I am a believer that the budget process is a disciplinary measure that you use here and, therefore, it has to have some teeth. It is not a popular measure and that is why there are a lot of people, I suspect, if they had their druthers, as I said before, would do away with it. But I think you need it and with two kinds of tools like deferred enrollment and also some form of tool that you are gong to have to develop and I think what we were talking about on legislation below the aggregates in areas that were not contemplated by anyone, you are going to develop some way of getting some better control over that.

To get back to something that you raised, and the chairman raised earlier, and that is how come with the process and all that we are no better off and perhaps we are worse off insofar as the progress of appropriations bills?

Well, there is no easy answer to that but it seems to me that what keeps happening is that we keep getting slippage in the passage of appropriation bills but I don't think that is correct to say that it is because of the budget process.

Sure, if you didn't have a budget process and if you didn't have the discipline and if you didn't have to retrench as you have to today, I think you would get your appropriations out on time.

I remember the glory days when every year there was an $80 to $100 billion kicker that the Congress got that enabled us to put a little more here and there and get the bills out.

But that is not what they have before them today, as you know. They have to come out with appropriation bills that retrench, that reduce, that hurt, because there is no easy way to cut, as you said earlier.

And also, they have to get by a Presidential veto. You have two Houses with two parties in control. It makes it extremely difficult to get that kind of appropriation bill out and I suspect that you would have that problem whether you had a budget process or not.

Mr. RHODES. Well, as you recall, we both served on the Appropriations Committee at one time and we didn't get those appropriations bills out much faster than we have done this year.

Mr. GIAIMO. No.

Mr. RHODES. As a matter of fact, I remember the defense bill almost always came up in October.

Mr. GIAIMO. Look at the defense bill this year.

Mr. RHODES. So I don't think you can blame the whole thing on the budget process. But I have been wondering if we don't need to have something happen if May 15 comes and we don't get a budget resolution.

It is scheduled but if we don't get it there is no penalty. You don't slap anybody's hands or anything of that nature. And when we first brought up the budget process in the committee, some of us felt that some penalty ought to bear on this situation and that if nothing else, the President's budget would become the congressional budget if there was no action before May 15.

I don't think anybody is in favor of that. I am not really sure that I am. But it does seem that there ought to be a time when all litigation is ended and you have got a budget and you proceed to do your appropriating.

Mr. GIAIMO. Well, you know you can go the whole range. You can say if you don't adopt it you make the President's budget the congressional budget.

There are others who say if you don't adopt a budget by May 15 you can proceed with your spending bills notwithstanding.

Every year we have huffed and puffed while I was here and since then it has been even worse but, by golly, you have adopted a budget and nobody ever said it was going to be easy.

It is probably the toughest decision Congress has to make in the year but to Congress credit it did adopt it.

Sure it is haphazard and you act on things too often, perhaps.

Mr. RHODES. There is a lot of redundancy in it.

Mr. GIAIMO. Yes, and people can make what we used to call cheap votes there and make the tough votes when the actual spending bills came up. But the fact is that you did act as a brake. You have stopped a lot of committees from spending moneys that I am convinced they would otherwise have spent if there hadn't been a process.

Mr. RHODES. Well, I agree with you.

The fact that we have had so few new programs in the past few years is caused by this. The chairman is absolutely right. I don't want to put words in his mouth but I think what he said was in the years past we have built a social and governmental structure that the economy cannot always afford.

When the economy is going full blast it can. When the economy is not going full blast it obviously can't. You can amend my statement if you want to, Mr. Chairman. I thought that was what you said.

Mr. GIAIMO. You have got tough problems ahead of you.

The question of do we have enough taxes to sustain the level of spending which is there? Can we afford not to look at the entitlement programs anymore and can we afford not to look at the defense posture anymore?

I think you are going to have to look at those three things next year, the entitlements, defense and taxes.

I think there is no way around it. And I think the budget process highlights that and gives you a starting point to do that. Otherwise, you wouldn't be bound by it and you would go on without the discipline of the process and the first thing you know you would come in with even higher deficits than you had anticipated.

Mr. **Beilenson**. There was no argument about that, Bob.

Mr. Bonior?

Mr. **Bonior**. Well, you pretty well curtailed new programs on the direct spending side.

What we see happening is everybody is running to the Ways and Means Committee and that whole area is growing by leaps and bounds.

I think when you name the three things you have go to deal with, defense, entitlements, and tax expenditures, I know a lot of people don't even agree with the concept itself but we have got to start dealing with controlling that in some way.

I don't know if you have this in California but we used to have a mechanism in the State Legislature of Michigan to force people to do things they didn't want to do. It was called the call of the house. And it is different from the call of the House here.

What it was was the speaker had the authority to call all members into the chamber and once they were there, there was authority to lock the doors and not let them out. And if they weren't there the speaker had the right to go out and petition the State police to get them off the highways, in their homes, and movie theaters.

And we used to do that in the State legislature and it generally worked. We got everybody there.

I remember 2 years ago they pulled 20 guys out of watching Star Wars and they got a budget passed.

I thank you for your testimony.

Mr. **Beilenson**. When I was in the California Legislature, and, we were just taking off for a scouting trip with our youngest son and our neighbor who was the Governor's personal secretary, saw me go and reported to the Governor's office. The Governor informed the highway patrol and we were stopped before we got to Lake Tahoe to come back and vote on something. You are right. It is a way to get work done.

Your suggestions have been very helpful, sir.

Mr. **Giaimo**. Thank you. Thank you very much.

Mr. **Beilenson**. Our third and final witness is Mr. Charles Bowsher, the Comptroller General of the United States, and we do thank you for being here and for giving so much of your time. We apologize, Mr. Bowsher, for making you wait, and express our appreciation for your patience.

You, too, have a long statement which we may include in its entirety in the record.

You may speak as you wish.

STATEMENT OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES

Mr. BOWSHER. I would like to briefly run through my shorter one, Mr. Chairman.

Governmental decisionmakers have to make many hard choices now and over the coming years on budgetary levels and allocations.

These choices have been made particularly difficult by the seriousness of the economic problems we now face. The budget process has been made to work under tremendously difficult circumstances, but the Congress should not accept the current process as permanent.

Indeed, I believe that unless we move ahead to simplify and strengthen budgeting practices through an appropriate blend of the needs for stability, control, and flexibility, the present problems will become even more difficult in the years ahead.

Some of these problems are becoming more immediate every day—such as the need to enact permanent statutory authority to overcome the "funding gaps" problem.

Others require reconsideration of more basic issues, such as the possibility of a biennial budget cycle.

In the interest of greater stability of basic programs, we also suggest that Congress consider advanced budgeting for capital investments, research, and development and aid to State and local governments.

I think it is essential that we bring much greater stability to our Government's activities and thus to our economy. Accomplishing this task will require not only that we strengthen the basic framework for congressional decisionmaking but also that we greatly improve the Federal Government's financial management system at all levels. Such steps would also ultimately lead to better budgetary control.

The implementation of the budget process, especially in the last few years, has been a source of frustration. This year's process demonstrated once again that there is simply not enough time available for the Congress to complete all the actions necessary to enact a budget under the present process by the start of the fiscal year.

The Government began fiscal year 1982 on a continuing resolution and will have to begin 1983 on one as well. The problem goes beyond the unique circumstances of these particular budget cycles.

In my judgment, the heavy workload which causes this situation, and which is equally a problem in the executive branch, stems in a large part from a process which is unnecessarily repetitive, a structure and system which is unduly complex, and a level of decisionmaking which is inappropriately detailed.

We need to consider ways of overcoming each of these factors—complexity, repetitiveness, and inappropriate detail—if we are to solve the broader problems of achieving an appropriate balance between stability, flexibility, and control.

Now is also the time to redouble efforts to gain more budgetary control.

The issue of "controllability" involves the tradeoff between the real need for a longer term, stable commitment by the Federal

Government to people who participate in Federal programs and activities versus the equally real need for the Congress to "control" the budget in both the short term and the long term.

There is no magic formula for making this trade off. It requires constant long-range planning; monitoring, of socio-economic trends; oversight, monitoring, and evaluation of Federal programs and activities; and other "good administrative controls" to support the analysis and decisionmaking on budget priorities for both the short and long terms.

Furthermore, the tradeoffs have to be made on a program-by-program basis dealing with specific groups of people, specific sectors of the economy, and specific problems.

Areas the Congress needs to consider, which I cover in my detailed statement, that would help us to achieve greater control include: expanding the coverage of the budget; adopting more appropriate categories and level of detail for the budget; using more consistent and appropriate methods for reporting budget authority amounts; achieving more reliable budget estimates; strengthening program accountability; and oversight and streamlining congressional procedures.

You asked me to specifically cover three aspects of congressional control: tax expenditures, common economic assumptions, and program accountability and oversight.

Regarding tax expenditures, we suggest that Congress take an evolutionary approach to strengthen its control, starting with improvements in the information base and scorekeeping procedures, followed by the use of nonbinding targets.

The Congress took such an evolutionary approach, successfully, in gradually bringing Federal credit activities under more direct control through the budget process.

While the technical problems are quite difficult, we believe the same gradual approach would be appropriate in the case of tax expenditures.

In addition to considering the possibility of moving to tax expenditure controls through the budget process, Congress could also develop oversight procedures to compare tax expenditures with spending programs with similar purposes.

We believe some current proposals for seeking agreement on the economic assumptions used to prepare budget estimates have merit. If successful, they could help eliminate an important source of confusion in the debate over the budget. But none are foolproof.

For example, the participants in the process may have as much difficulty agreeing on a set of common assumptions in December as they now do in March.

Also, one should recognize that involving the Federal Reserve in a consensus forecast as has been suggested in one proposal, implicitly asks them to agree on a prediction of the future course of interest rates.

I suspect the Federal Reserve would be very reluctant to do this because it would further complicate the task of implementing what they would consider an effective monetary policy.

On the whole, however, we applaud the effort to develop a way of coming into agreement on economic assumptions and it may well be worth experimenting with some of the concepts.

Program accountability and oversight are two areas that have languished somewhat in the last few years. If the Congress were to move toward longer funding periods, as we have suggested, there would be more opportunity to focus on these areas.

In addition, the Congress could develop oversight and program review agendas and procedures, as proposed in H.R. 58, the Sunset Review Act of 1981.

In the area of program accountability, the Congress may want to consider other steps including using a procedure patterned after the Department of Defense SAR system for major capital investments throughout the government.

Some flexibility is already built into the budget process through existing adjustment mechanisms. These include procedures for changes to the budget resolution, supplementals, rescissions, deferrals, transfers, and reprogrammings.

Though these adjustment mechanisms do offer some flexibility, and can be useful tools during the budget cycle, they are handled in an ad hoc manner by the executive branch and the Congress.

To make the adjustment process more effective, there should be specific procedures and someone responsible for managing it, such as possibly the Appropriations Committees.

The adjustment process should be a relatively simple means for making changes within some specific limits. But it should not become a vehicle for extensively reopening decisions, which would undermine stability of the budget process. Particularly if Congress should decide to shift to a biennial budget, we would urge that the adjustment process be limited to matters that cannot await the next budget cycle.

Then, Mr. Chairman, you specifically asked me to address one adjustment mechanism, particularly the impoundment process.

Enactment of the Impoundment Control Act constituted an important step in reassertion by the Congress of greater control over the Federal budget.

The act generally requires that impoundments be reported to Congress and gives Congress ultimate control through endorsement or denial of reported proposals. If both Houses have not completed action on a rescission proposal by the President within 45 days of continuous session, any funds being withheld must be made available for obligation.

Since passage of the act in 1974, GAO has been heavily involved in the operation of the act as the agency statutorily responsible for reviewing presidential impoundments to Congress.

We believe that the basic framework of the act is sound, given the legal and practical climate from which it evolved. However, in the interest of clarifying the act and simplifying its operation, we have made suggestions for amending the act.

In our 1977 report to Congress reviewing the act's first 2 years of operation, we proposed several amendments to improve procedures under the act while maintaining its present form. Those recommendations are discussed in my formal statement.

More recently, we have suggested consideration of an alternative proposal which would alter the basic procedures under the act while retaining the balanced relationship between the executive and legislative branches.

Uniform treatment of all impoundments was a feature of many bills introduced prior to passage of the Impoundment Control Act. The distinction between rescissions and deferrals in the act was the product of conference consideration of House and Senate bills with widely divergent approaches to the impoundment process.

Our proposal would involve handling all impoundments under the deferral procedures. That is, the impoundment could continue in the absence of congressional action to the contrary.

However, there would be an exception for funds which would lapse at the end of the year. In these cases, the President would specify a date beyond which it would be impractical to obligate the funds. If the budget authority had not been rescinded by that date, the funds would have to be made available for obligation.

Treating all withholdings as deferrals would have several advantages over present law. It would recognize that Congress might oppose a proposal to rescind, but support a delay in the use of funds.

Further, administration of the act would be simplified by eliminating the need to distinguish between deferrals and rescissions, and by eliminating the need for Congress to respond within a fixed time.

In conclusion, I am greatly encouraged by the scope and depth of the Congress' current concern for administrative reforms.

In particular, the time, effort, and interest shown by the members of the task force in improving the budget process is very commendable.

As you go through the arduous task of budget reform, I urge you to emphasize stability, flexibility, control, and simplicity.

If we can move to a greater use of longer term and advanced budgeting and, in the near future, to a biennial budget; take care of the funding gaps problems; simplify the impoundment process; and eliminate as many of the hurdles in the process which provoke confrontation, it will represent an enormous step forward.

I offer whatever assistance we can provide as you continue with this work.

[Mr. Bowsher's prepared statement follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE

Washington, D.C. 20548

FOR RELEASE ON DELIVERY
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TESTIMONY OF

CHARLES A. BOWSHER

COMPTROLLER GENERAL

OF THE UNITED STATES

BEFORE THE

TASK FORCE ON THE BUDGET PROCESS

COMMITTEE ON RULES

U.S. HOUSE OF REPRESENTATIVES

ON

IMPROVEMENTS TO THE CONGRESSIONAL BUDGET AND

IMPOUNDMENT CONTROL ACT

OF 1974

Mr. Chairman and Members of the Task Force:

I am pleased to be here today to present our views on possible improvements to the budget process. It is clear that the country is facing significant economic problems, and governmental decisionmakers will have to make many hard choices over the coming years on budgetary levels and allocations. Under these demanding circumstances, it behooves Government to simplify and strengthen its budgeting practices through an appropriate blend of changes directed at achieving greater stability, control and flexibility in the process to better meet policymaker's needs.

BALANCE NEEDED IN BUDGET PROCESS AMONG STABILITY, CONTROL, AND FLEXIBILITY

The Congress is faced with conflicting budgetary pressures that have been accentuated by the budget process and its evolving problems. It is desirable to have more stability in Government programs and funding, especially where States and localities are concerned. It is also desirable to have greater control over expenditures, revenues, and the deficit. However, at the same time, it is desirable to retain flexibility to respond to unexpected conditions, changes in the economy, or changing priorities. In addition, simplicity in the budget process is necessary so that it can work, and not be an all-encompassing endeavor for the Congress. It must also allow sufficient time for oversight and other necessary duties. Obviously, a balance among these conflicting pressures is the only practical solution. In this testimony, I will discuss the various budget process problems and reforms being considered in the context of stability, control, or flexibility, as appropriate. I believe that the Congress, in considering the overall scope and impact of its budget process, will decide to take steps that will achieve the delicate balance needed for success.

STABILITY

I think it is essential that we bring much greater stability to our government's activities and thus to our economy. Accomplishing this task will require not only that we strengthen the basic framework for congressional decisionmaking but also that we greatly improve the Federal Government's financial management system at all levels. Such steps would also ultimately lead to better budgetary control.

The implementation of the budget process, especially in the last few years, has been a source of frustration. For example, this year's process demonstrated once again that under the present process there is simply not enough time available for the Congress to complete all the actions necessary to enact a budget by the start of the fiscal year. The Government began fiscal year 1982 on a continuing resolution and will have to begin 1983 on one as well. The problem goes beyond the unique circumstances of these particular budget cycles. In my judgment, the heavy workload that causes this situation, and which is equally a problem in the executive branch, stems in large part from a process that is unnecessarily repetitive, a structure and system that is unduly complex, and a level of decisionmaking that is inappropriately detailed.

In examining those questions, I would like to turn first to an issue that is critically urgent, the problem of funding gaps.

Funding gaps issues

Earlier this year, we testified on the "funding gap" issue. At that time, the Federal Government was facing a possible delay in raising the debt limit. More recent concern regarding funding gaps involves not only passage of the debt limit but also passage of the recent supplemental appropriation and now the continuing resolution for fiscal year 1983--three potential funding gap situations in a few weeks' time. There have been relatively frequent funding gaps due to the failure to enact timely appropriations. The effects of these gaps on Federal operations and services include lost productivity, lowered morale, disruptions in services, lowered respect for the Federal Government, and some direct costs. These effects involve not only the Federal agencies but also those who work under Federal contracts and grants, including local governments, States, universities, defense contractors, and those who receive Federal aid and services.

The extent of these effects depends on how agencies respond to the existence (or prospect) of a funding gap and the length of the gap. The present procedure is to immediately begin an orderly shutdown of non-essential operations. The most significant shutdown was on November 23, 1981. It did not extend beyond that day and was not fully initiated in all agencies. Therefore, that experience does not provide us with a basis for assessing the effects of a longer and more complete shutdown.

The Constitution precludes the withdrawal of public funds from the Treasury except pursuant to appropriations made by law. Moreover, the Antideficiency Act establishes procedures and criminal penalties to assure that funds are neither obligated nor spent in the absence of sufficient appropriations.

For many years, the Congress and the President were able to meet fiscal year deadlines for passing appropriations measures to assure the smooth continuation of Government operations from year to year. As Government activity and related budget consideration grew more complex, however, it became increasingly difficult to meet fiscal year deadlines on an agency-by-agency basis. Stop-gap measures, called "continuing resolutions," were used to avoid disrupting Government operations. As fiscal years were ending without enactment of either specific appropriations or continuing resolutions, anxieties increased, but congressional action took place in sufficient time to avoid more than a day or two without the provision of funds.

GAO took the position that allowing employees to report for work after the lapse of appropriations would constitute a violation of the Antideficiency Act. But, on the premise that the Congress expected the Government to continue functioning, we did not pursue our normal course in dealing with the statutory violations involved. That is where the issue stood until April 25, 1980--the day the Attorney General issued a landmark opinion concluding, in essence, that except for activities necessary to achieve an orderly shutdown, Government operations must cease when appropriations lapse without the provision of new funding. He went on to say that future violations would be subject to criminal prosecution. The Attorney General's opinion was designed to force the Congress to meet budget deadlines, thereby avoiding end-of-fiscal-year confusion. The Congress, in light of the opinion, later enacted a continuing resolution only to have it vetoed. A costly shutdown occurred. It is easy to point fingers of blame when this happens, but the real culprit is a system that promotes confrontation.

We believe, as we did before the Attorney General's opinion, that it is inconceivable that the Congress or the President wish the government to come to a halt under these circumstances. To prevent this result in the case of a lapse in appropriations, we have recommended that permanent statutory authority be enacted to allow the incurrence of obligations to continue during periods of lapsed appropriations. This would minimize the ill-effects of such situations. However, this would not allow the disbursement of funds until appropriations were made by the Congress.

A more far reaching approach would be the adoption of some form of legislation that would permanently and automatically continue funding. The authority could be in effect for a limited amount of time (less than 1 year) and fund programs at the level of the previous fiscal year or at a reduced level. Thus, government programs would be allowed to continue while the Congress had time to make orderly decisions.

Another potential funding gap relates to the debt ceiling. Voting once to raise the debt ceiling is painful enough without having to deal with this issue repeatedly. Would it not be preferable to increase the ceiling by larger amounts or perhaps make the entire debt ceiling permanent in order to extend the time period covered by this legislation? This would help avoid lapses in government funding and reduce the need for frequent decisions on that issue.

Biennial Budgeting

In addition to dealing with the more urgent funding gaps issue, the Congress may wish to consider another mechanism, a biennial budget cycle, that would significantly enhance the stability of the entire budget process.

We believe that biennial budgeting offers several potential advantages over the current system. If effectively designed and implemented, it would

--allow more time for congressional decision-making and oversight;

--reduce the number of times the Congress must act on the same programs;

--provide more time for long-range planning; and

--provide an opportunity for better budget analysis, financial and operational planning, budget execution, and program review by both the Congress and the executive branch.

Biennial budgeting can also provide more funding certainty for recipients of Federal monies or services, especially if it were coupled with greater use of advance budgeting for these programs.

Despite these potential advantages, it is important to remember that determining the sequence of key events and constructing a realistic biennial timetable is very difficult. Any budget timetable represents a series of decisions as to the choice of key events in the budget process, the sequence of those events, and the amount of time allowed for each event. The timetable of the 1974 Act assumed that all the then-existing events in the budget process would remain. The Act further superimposed on all these events a guiding first budget resolution with targets, a binding second budget resolution with ceilings, and a reconciliation process. This timetable also assumed that authorizations would precede appropriations.

A biennial schedule could include all of the steps in the current process, fewer steps, or different steps. A biennial schedule could spread the budget events over an entire 2-year period with oversight occuring throughout or it could put the budget events in the first year, followed by oversight in the second year, or vice versa. The biennium could coincide with the two years of a congress or could overlap congresses. The fiscal period could begin October 1, as it does now, or could be changed to January, or back to July.

In our recent testimony of August 19, 1982, before the Senate Committee on Governmental Affairs concerning the Budget Reform Act of 1982 (S. 2629), we discussed that bill's proposed biennial budget timetable, which differs substantially from other proposals we have reviewed. Under S. 2629, all budget decisions would be made in the first session of Congress; the second session would be devoted primarily to oversight. We stated that this timetable is attractive because

--it allows difficult budget votes to come in a non-election year;

--it allows budgets to be adopted during the first year of a President's term, when there is more chance of consensus between the President and the Congress;

--it allows a newly-elected President to initiate swiftly the program outlined in the campaign; and

--it leaves the Congress relatively free in the second session to perform program and policy oversight, building a base of information for consideration in the subsequent biennium.

However, we also pointed out that this timetable does have some drawbacks. New Presidents would have little time to develop a comprehensive budget policy unless their top executives were identified early and were ready to go to work soon after the election. This problem might be ameliorated by sliding the dates for congressional action. But this would restrict the time available for congressional deliberation, which S. 2629 would relieve only slightly by shifting the start of the fiscal period to January 1.

Other timetables have different advantages and drawbacks. None seem to satisfy every concern. The choice involves tradeoffs. On the whole, we favor a timetable having congressional action on the budget take place in the first year of a Congress, with oversight and other activities primarily concentrated in the second year.

We are completing a study for the House Budget Committee's Task Force on Environment, Credit, and Multi-year Budgeting on biennial budgeting, including the experience of three states that have current experience with it. This study should provide you with more information for considering these proposals.

Advanced budgeting

Longer term and advanced budgeting methods can also serve as mechanisms to bring about greater stability by allowing funds to flow predictably. This is particularly important for activities whose efficient execution is dependent on effective long-term planning.

The type of funding should depend on the nature of the activity. For instance, one activity may dictate the use of longer term appropriations or authorizations, another may require advanced funding, and still another may benefit from some combination.

Three areas where greater stability would be particularly advantageous are

--investments in capital or physical assets,

--research and development, and

--aid to State and local governments.

Investments in capital or physical assets should involve longer term decisions on programs and funding whenever possible. Greater stability for investment programs, such as major military weapons programs, is a necessary ingredient in program efficiency. A longer term focus for investment decisions would allow the Congress to consider budget levels in relation to the overall conditions and needs for the Nation's public infrastructure and the defense structure. The 5-year programs for shipbuilding and the 3-year programs for aircraft construction are good examples of how this is presently being done for defense.

The research and development area also needs greater certainty and continuity of work as well as information for looking across agencies. As with capital investment programs, we believe multi-year funding is appropriate to avoid the disruptive effects of sudden, unplanned changes in direction. We feel that this type of funding would have a very positive and stabilizing effect on the conduct of Federal R&D. Funding should be available to move from one phase of research to the next without disruption.

The third area is aid to State and local governments, who need more stability and continuity of funding. Their greatest need, however, may be for earlier information about the funds which will be made available. GAO currently has a study underway examining the timing problems among the Federal, State, and local budget processes. The study has found that most State and local governments, if they are to plan effectively, must have definitive information 6 months before the start of their fiscal years (in most cases July 1). But, Federal decisions on funding levels are often made just before the beginning of the Federal fiscal year, October 1, if the Congress adheres to its budget timetable. This means that most Federal decisions are made at least 9 months too late from the State and local point of view. Thus, we recommend that consideration be given for making funding decisions in this area on a 2-year cycle, with advance budgeting by 1 year for these programs.

CONGRESSIONAL CONTROL

Besides the critical need to bring a degree of stability to Federal management, now is also the time to redouble the efforts to gain more budgetary control. The issue of "controllability" involves the trade-off between the real need for longer term, stable commitment by the Federal Government to people who voluntarily or involuntarily participate in Federal programs and activities versus the real need for the Congress to "control" the budget in both the short and long term.

There is no magic formula for making this trade-off. It requires constant long-range planning; monitoring of socio-economic trends; oversight, monitoring and evaluation of Federal programs and activities; and other "good administrative controls" to support the analysis and decisionmaking on budget priorities for both the short and long terms. Further, the trade-offs have to be made on a program-by-program basis dealing with specific groups of people, specific sectors of the economy, and specific problems.

These individual program decisions can be made in the context of a budget policy of encouraging multi-year (but not permanent) commitments.

Areas I wish to discuss today that would help us to achieve greater control include: expanding the coverage context of a budget policy of encouraging multi-year (but not permanent) commitments.

Areas I wish to discuss today that would help us to achieve greater control include: expanding the coverage of the budget; adopting more appropriate categories and level of detail for the budget; using more consistent and appropriate methods for reporting budget authority amounts; achieving more reliable budget estimates; strenthening program accountability and oversight; and streamlining congressional procedures.

Budget coverage

I believe the current focus on revenues, outlays, and the resulting deficit or surplus is appropriate. The focus on budget authority is also appropriate. However, the additional attention that has been given to these levels in the past few years has shifted some attention away from the obligation levels that are more controllable and that, in turn, control the amount, but not the precise timing of the outlays. The Congress' interests in budgetary control may be better served by shifting more focus back to obligation levels, both the new budget authority requested as well as the total obligation authority it has made available, including the carryover balances.

Furthermore, the growth in entitlements, tax expenditures, and the increasing economic importance of Federal credit activities have created new budget control and information problems. Incomplete coverage of these matters can only impair public confidence in the budget process.

Tax expenditures control

You asked us specifically to comment on budget control and information problems associated with tax expenditures.

We suggest that Congress take an evolutionary approach to strengthen its control over tax expenditures, starting with improvements in the information base and scorekeeping procedures, followed by the use of non-binding targets. The Congress took such an evolutionary approach, successfully, in gradually bringing Federal credit activities under more direct control through the budget process. While the technical problems are quite difficult, we believe the same gradual approach would be appropriate in the case of tax expenditures.

In addition to considering the possibility of moving to tax expenditures controls through the budget process, Congress could also develop oversight procedures to compare tax expenditures with spending programs of similar purpose. During the last Congress, the Rules Committee, as well as others, thoroughly investigated several oversight reform proposals, including some that would have considered tax expenditures along with direct spending programs. Current versions of these proposals are now before this Congress. Although these proposals seek to join the review of tax expenditures with program authorization procedures rather than bringing these directly into the budget process, they would serve the purpose of strengthening oversight over tax expenditures.

Level of detail of decisions

Decisionmakers in the Government today must give priority to improving their management control systems. They must also encourage the types of analysis that will help them make hard choices in selecting the programs and activities that are to be reduced, terminated, or expanded. It is evident that decisionmakers are currently faced with "decision and detail overload." No decisionmaker can be expected to grapple simultaneoulsy with the myriad separate decisions represented by the appropriation account, activity, and object class structure in the Appendix to the President's Budget. This overload creates a barrier for decisionmakers towards achieving control of the budget because the focus is on details rather than broad policy issues.

Top policy officials of the Congress, the President, and the executive agencies should focus on broad policy, including the basic direction and general content of programs. Accountability and control of this level should concentrate more on assuring that these policy directions are pursued and less on the detailed activities necessary to implement them.

This is not to say that decisions at the level of detail in the Appendix are unimportant. Decisions made at the top of the governmental structure obviously must be converted into more detailed decisions as one moves down the hierarchy and simultaneously moves from planning broad priorities to executing specific programs and activities. Once these broad priorities are decided, program managers should be delegated the authority needed to carry out those policy decisions and should be held responsible and accountable for the results.

Budget structure

Currently, proposals have been made to separate from the unified budget such items as capital investments and the trust funds that finance retirement programs. We agree that these issues warrant particular attention and visibility in the budget process. However, we believe that can and should be done within the unified budget. Separate budgets would risk the loss of attention to the overall budget totals, which are critically important as a component of economic policy. It would also create a tempting opportunity to play games with the numbers by shifting programs from one budget, where funds may be tight, to another, where conditions may be somewhat more relaxed.

To reconcile these concerns, we suggest that the main budget structure might be revised to group the Federal Government's programs and activities into the following types of policy areas:

1. investment in capital assets, both defense and domestic,
2. research and development,
3. aid to State and local governments,
4. credit assistance,
5. entitlements for individuals,
6. interest, and
7. operating expenses.

We chose these seven categories as a starting point for developing a different budget structure, because they each involve large portions of the Federal budget and each require different planning, financing, and management approaches. Of course, budget data can be structured in many ways. We believe modern data processing techniques should permit the budget to be reformatted in a variety of ways to serve a variety of purposes. But we think this structure would have a special value. By looking at the budget from these seven policy perspectives, it is easier to deal with the national needs, the Federal Government's roles, and the means for financing more comprehensively, ultimately achieving increased control of the budget. This cannot be done program by program, nor can it be done effectively using the current budget functions, although each of those structures has value for other purposes.

Consistent use of the budget authority concepts in practice

The 1967 President's Commission on Budget Concepts recognized the importance of realism, comparability, and consistency in measuring budgetary resources and spending levels. Budget authority was defined in the 1974 Act. Through several opinions we developed the following expanded definition:

> "* * * the fundamental objective of the Congressional Budget Act of 1974 was to establish a process through which the Congress could systematically consider the total Federal budget and determine priorities for the allocation of budget resources. We believe this

> process achieves its maximum effectiveness when the Budget represents as complete as possible a picture of the financial activities of Federal agencies. We further believe it is vital to maximizing the effectiveness of the process that Federal financial resources be measured as accurately as possible because priorities are actually established through decisions on the conferring of this authority. From this standpoint, therefore, the concept of 'budget authority' should (a) encompass all actions which confer authority to spend money, (b) reflect as accurately as possible the amount of such authority which is conferred and (c) be recognized at the point at which control over the spending of the money passes from the Congress to the administering agency."

This concept has been applied case-by-case as problems are raised. No across-the-board analysis has been made, however. There are areas of uncertainty and apparent inconsistency, including the use of full funding, the use and reporting of receipts and collections, and the use of accrual accounting methods in budgeting. We believe that three measurement areas deserve special attention:

--First, there are unresolved issues pertaining to the budget authority concept and its application. It is, of course, most important to have meaningful, consistent, and well understood budget authority recordings given the fact budget authority is the key financial resource controlled by the Congress and executive branch in their budget-setting actions. Unfortunately, there is confusion about budget authority given the maze of varying applications.

For example, there is no general agreement on which multi-year programs should be "fully funded." I believe that where proper planning and good management exist, the full funding approach can facilitate greater program stability, more equitable comparisons of programs and the "up front" disclosure of total costs. We have developed some criteria for the application to full funding. It is clear, however, that more work is needed to identify the programs where full funding should be applied.

It is also clear, however, that serious problems can arise if full funding is provided in the absence of good planning and management. Cost overruns, program delays and so on may not come to light promptly without the visibility of regular funding decisions. An alternative which provides some of the benefits of full funding would be more extensive use of multi-year authorizations.

Another confusing budget authority matter is the fact that budget authority recordings do not always represent total new obligational authority even in one-year programs. There are many programs, including public enterprise revolving fund and emergency programs, which have budget authority recordings that express far less than estimated or actual new obligational authority because of current conventions. In public enterprise revolving funds, for example, the recordings do not encompass the obligational authority that is generated by program business-type collections. I think that under such varying practices among budget accounts the budget authority concept is less meaningful, and the practices add to the general confusion about the budget.

--A second matter, closely related to the first is the continuing use of offsetting business-type revenue to reduce reported budget totals. For example, the offsetting practice reduced estimated on-budget and off-budget outlays for fiscal year 1981 by about $102 billion. We believe that this practice significantly understates outlay totals, and we favor reporting the amounts on a gross basis. I also believe this would be a step toward simplifying budget totals.

--Third, we need to look again at the concepts used to express dollar levels of program activity. Both the Hoover Commission and the Commission on Budget Concepts endorsed cost-based budgeting and the reporting of receipts and expenditures on an accrual basis. We have had only partial implementation of these recommendations, with attendant confusion. For example, although some Federal agencies have taken steps to adopt modern accrual accounting systems, and the President's Budget Appendix now reports "costs" for many activities, budget decisions and controls continue to be on "obligations" rather than costs.

The problems with budget estimates

Many aspects of the Federal budget process frustrate its participants. One is the volatility of the budget numbers or estimates that appear in the President's budget and the budget resolutions. Not only is the derivation of these numbers complex, but the estimates often only approximate actual amounts. Seldom do the major participants agree on these estimates. Today we would like to focus on the formulation of these estimates, the major reasons for misestimates, and some of the proposed reforms.

Large parts of the budget are determined by economic and social conditions in the U.S. and, to some extent, abroad. Thus, before budget estimates can be formulated, assumptions must be made about the outlook for these factors during the budget period. While errors in the estimates can arise from technical mistakes, the large ones are much more likely to flow from mistaken assumptions about how the economy will behave.

Economic forecasting is, of course, a difficult business. But, accurate forecasts are invaluable since much of the variance among budget estimates is due to differences in the perceived future condition of the economy. However, since assumptions about future events must be made and the future can diverge from current expectations, it should not come as a surprise that forecasts are often off the mark.

In preparing a forecast, assumptions must be made about such difficult matters as the monetary policy that the Federal Reserve will pursue over the period in question. The usual practice is to feed these assumptions into an econometric model to project what the economy will be like in upcoming fiscal years. The reliability of the resulting forecast depends on the accuracy of the policy assumptions and the extent to which future behavior conforms to that described by the models' many predicting equations. In addition, the forecasts are usually tempered by human judgment.

Slight variations in the actual performance of the economy, compared to the forecast, can have large implications for the budget. For example,

--A one percentage point increase above the projected rate of unemployment will cut revenues by about $12 billion in one fiscal year and increase expenditures by $5 billion.

--A one percentage point increase in the inflation rate adds about $5 billion in revenues and $1.3 billion to expenditures in the first year.

--A one percentage point increase in interest rates adds about $1 billion in revenues in the first year and about $2.3 billion to expenditures.

The budget estimates also include assumptions about anticipated legislative and administrative actions. When these turn out to be incorrect, they can effect both revenue and expenditure estimates. For example, the timing of the passage of the 1981 3-year tax cut legislation was later than expected, thereby causing the final tax receipts to differ from what had been estimated.

Errors can also arise from such factors as abnormal weather conditions and natural disasters. A severe drought, for example, may have an adverse effect on the farming industry, reducing Federal tax revenues. It may also cause Federal expenditures for disaster relief or crop insurance to rise above the estimated level.

Because the forecast is, in part, an extrapolation of past events, some account can be made for such things as abnormal weather conditions. However, occasionally a disaster, such as the eruption of Mt. St. Helens will occur, falling well outside the range of expected events.

Another reason for inaccuracies in revenue and expenditure estimates is unforeseen international events. The Arab oil embargo of 1973 was something few could have predicted, and it certainly had a dramatic effect on U.S. revenues and expenditures.

Finally, in the complex process of developing budget estimates, it is always possible simply to make a mistake. While this obviously happens from time to time, we do not believe it to be a major problem. Errors of this sort appear to be relatively small.

From this review of the sources of error in budget estimates, it seems evident to us that the appropriate focus of attention is the set of economic assumptions that underly the estimates. In doing so, however, one must recognize that although it is difficult to quantify the political impact on estimates, it nevertheless is there in the form of the personal judgment involved in adjusting the initial forecasts of the computer models. It is not uncommon for revenues and expenditures to be optimistically estimated for political reasons. For example, a president or Congress may choose to project a lower inflation rate than others believe likely, with consequent effects on the estimates of both revenues and outlays. In addition, people may sincerely hold sharply differing views of how the economy functions and thus of how it will behave. This sort of disagreement appears to have been at the root of the debate last year over the likely effect on the economy and the budget of the 1981 tax reductions.

In recognition of the problems caused by widely divergent sets of economic assumptions, the inexact nature of the estimates, and the need for frequent revisions, combined with the political significance of the estimates, several proposals have been offered. We will briefly discuss three of these proposals.

The Penner proposal: common economic assumptions

In a paper published in August 1981, Rudolph Penner of the American Enterprise Institute suggested some technical methods for arriving at neutral economic assumptions that could be used in budget debates by the executive branch and by the Congress. Mr. Penner proposes the following procedures:

> First, that all contending parties agree in December preceding the start of the fiscal year to base program decisions on a common set of forecasts and projections regarding the economy. These would be used throughout the first budget resolution.
>
> Second, the contending parties could also project the implications of policy decisions on different sets of assumptions if they like, but at least there would be one set for consistent comparisons.
>
> Third, a new set of assumptions could be divised for the administration's July budget revisions and the second budget resolution, based on the latest data.

The attractiveness of this approach lies in the fact that with one common set of economic assumptions, policy issues could be more clearly separated from issues arising because of different assumptions. In addition, this set of economic assumptions would be as free as possible from political manipulations.

The Gephardt proposals: Board of Revenue Estimators

In his bill, H.R. 6866, Mr. Gephardt offers a concept somewhat related to Mr. Penner's suggestion. Instead of using a common set of economic assumptions, Mr. Gephardt proposes to establish a Board of Revenue Estimators, made up of the Chairman of the Board of Governors of the Federal Reserve System, the Director of the Office of Management and Budget, and the Director of the Congressional Budget Office. It would be the duty of this board to determine the revenue estimates for the budget resolutions and for the next two fiscal years. Having a board responsible for revenue estimates will not only result in a common set of economic assumptions for revenues, but also involve the Federal Reserve in budget policy, a move gaining in popularity.

The Michel proposal: ranges for budget estimates

In his bill, H.R. 6400, Mr. Michel calls for ranges of numbers for outlays, revenues, and deficits or surpluses to appear in the budget resolutions. These ranges would remain in effect for 60 days, at which time the Budget Committees would review the numbers. If the economy had changed dramatically, the panels could recommend appropriate revisions. This approach not only recognizes that budget estimates are not exact but also that the Congress needs the flexibility to make revisions to the budget in response to changes in the economy. It can be argued by some that adjustment to the budget too frequently may be counterproductive. Nevertheless, we believe that the recognition of this need for flexibility is a positive step.

These proposals have merit. If successful, they could help eliminate an important source of confusion in the debate over the budget. But none are fool-proof. For example, the participants may have as much difficulty agreeing on a set of common assumptions in December as they now do in March. Also, one should recognize that involving the Federal Reserve in a consensus forecast implicitly asks them to agree on a prediction of the future course of interest rates. I suspect the Federal Reserve would be very reluctant to do this because it would further complicate the task of implementing an effective monetary policy. The idea of using ranges in the budget resolution seems to have promise, but the 60-day period for review is too short. We would prefer that such review take place on an as-needed basis.

On the whole, we applaud the effort to develop a way of coming into agreement on economic assumptions. If these efforts are successful, it would be an important step forward for the budget process. Thus, it may well be worth experimenting with the Penner approach. While we remain a little skeptical, it appears the most promising of the three.

Program accountability and oversight

Program accountability and oversight are two areas that have languished somewhat in the last few years, as the budget debate has tended to dominate the business of the Congress. If the Congress were to move toward longer funding periods, as we have suggested, there would be more opportunity to focus on these areas. Some of the budget reform proposals contain a set-aside period for the Congress to do oversight. This set-aside period should certainly go a long way to enabling the Congress to conduct more oversight. We would suggest that, in addition, oversight procedures or mechanisms be established, such as those proposed in H.R. 58, the Sunset Review Act of 1981. The Congress could develop oversight and program review agendas. For instance, committees could develop a tentative schedule of their over-sight activities for each Congress. Such a schedule could list programs to be reviewed, policy areas/topics to be examined, and the nature of such reviews. These reviews could be both retrospective and prospective. Reviews can be general oversight reviews of management or program effectiveness or budget-oriented reviews to identify areas for savings. For example, GAO recently completed a budget-oriented review of DOD plans. Because military spending is projected to be about 32 percent of the total budget in 1985, up from 24 percent in 1980, we wanted to take a critical look at Defense's plans, examine actual use of these increased funds, and determine the areas where improvements were needed.

We found that between fiscal years 1980 and 1982, the Defense budget increased by approximately $72 billion, a 50 percent increase since the 1980 budget year. Most of the increase was directed to improving readiness and sustainability, modernizing the forces, and improving the quality of life for military personnel. Our examination of this spending and the way Defense makes its spending decisions showed that corrective action is required in numerous areas. For instance,

--The Secretary of Defense needs to follow through on his pledge to improve stability in the weapon systems acquisition process by eliminating marginal programs to fund higher priority programs at more economic levels of production.

--The Secretary of Defense needs to monitor more closely those programs receiving large funding increases to ensure that additional funding can be spent prudently.

--The Secretary and the Congress need better visibility over the way funds are used in the operations and maintenance areas. Currently the reporting to higher levels is primarily through the financial controls, such as obligation rates, rather than through reporting on what was accomplished with the funds in relation to the plan.

--The current Defense budget system needs to be improved; it is virtually silent on what was accomplished with the funds provided. In addition, defense needs to (a) better justify its requests, (b) develop a strategy for carrying out the programs, (c) clearly state their objectives and develop a measure to gauge performance, (d) report their accomplishments in relation to their established criteria, and (e) build into subsequent budget requests feedback on actual performance.

GAO can focus its work on the programs and policy areas the Congress will be addressing in its oversight process, thereby better meeting the information needs of the Congress. For example, we could provide the Congress one or more summary reports at the beginning of each Congress covering our work on major issues the Congress plans to address plus any other matters that have come to our attention that we believe the Congress should consider. We could also provide the entire Congress with separate reports on each of the major programs and policy areas. We recently completed a review of economic policy. This is discussed in the fiscal policy section near the end of my statement.

In the area of program accountability, the Congress may want to consider other steps including using a procedure patterned after the Department of Defense SAR (Selected Acquisition Reports) system for major capital investments throughout the government.

The Defense SAR system provides useful information on the status and progress of selected major weapons systems. Through this system, which has been in existence for over a decade, some visibility on weapon system cost and cost growth, as well as changes to schedule and technical performance data and reasons for such changes, are provided to congressional committees. Just as important, the SAR system provides categories recording specific causes of cost growth. This type of data, accumulated over a period of years on a wide variety of systems, has provided a valuable insight into such growth.

We believe that although the SAR system provides useful information, it can be improved. These improvements were outlined in testimony before the Senate Committee on Governmental Affairs on April 22 of this year. The focal point of our testimony at that time was the proposed use of the SAR system for major civil acquisitions, as envisioned in S. 2397. We stated that such a system would provide the Congress and top agency management with oversight data on the progress and direction of projects and allow them to readily identify problem areas and their causes. We feel that the SAR system should be an integral part of the congressional oversight process and budget execution, particularly in view of the need for better information on capital investments, including development of longer range plans and the evaluation of agency performance in light of these plans.

Simplifying congressional procedures

Many have argued that the current budget process is too cumbersome and repetitive and, therefore, is in need of simplifying, whether or not we change to a longer fiscal period. I will discuss 4 ways that have been proposed to simplify the process:

--a single binding budget resolution,

--an omnibus appropriations bill,

--withholding "budget-busting" bills from enrollment, and

--reconciliation any time after passage of the budget resolution.

The single binding budget resolution is attractive because it eliminates the repetition of the second and, at times, third budget resolutions. Another simplifying approach is having a first resolution with a provision to make the first binding if the second is not passed by a certain date (as is now in effect for the Fiscal Year 1983 budget).

The omnibus appropriations bill would accomplish two things. It would eliminate the repetition of passing 13 appropriations bills and it would tend to strengthen the discipline in the process. That it failed to work once before (for the 1950 appropriations) is certainly basis for concern, but the idea is worth further consideration. On the other hand, retaining the 13 separate appropriations bills does have the advantage of continuing the more specialized and detailed attention given to parts of the budget by the Congress as a whole. Another alternative for even greater integration would be a single consolidated budget bill, embracing revenue actions and the debt limit, as well as appropriations, such as Mr. Obey has suggested. This would provide further assurance of consistency among various aspects of the budget.

The third way, withholding bills from enrollment, allows the Congress to see the cumulative effect of spending bills before completing action on the budget and eliminates the vulnerability of the last bill scheduled for floor action. It is a mechanism that has already proved fairly effective in allowing the Congress to see the results of their actions, but it also contributes to the number of decisions required at the end of the process.

Finally, reconciliation at any time after the budget resolution is passed would add some flexibility. We believe this would be useful. Indeed, as a general principle, we would tend to favor less rigid schedules, with fewer hurdles to overcome when creating a budget. I cannot emphasize enough the importance of simplifying the Federal budget process.

FLEXIBILITY

If changes are made to the budget process to bring greater stability and control, as I have just discussed, there will also be a need for flexibility in the process by which decisionmakers can adjust to contingencies and changing conditions. Flexibility is already built into the budget process through existing adjustment mechanisms. I wish to particularly focus on (1) the need to control the indexation of entitlements through the budget process and (2) possible changes to the impoundment process. I will also address the broader question of the effect budget decisions have on the exercise of our fiscal policy.

Adjustment mechanisms

The budget process should allow greater flexibility for the Congress and the Executive to make adjustments to policy and program levels during the budget cycle. Adjustment mechanisms are useful in an annual and even more so in a biennial budget.

A good budget system must allow for changes. During the course of the budget cycle conditions change. This often creates the need for a change in direction of policy and programs.

Some adjustment procedures are already available. For instance, procedures for changing the budget resolution and legislative veto can aid in adjusting policy, and procedures such as supplementals, rescissions, deferrals, transfers, reprogrammings, and automatic adjustments for technical reasons can aid in adjusting programs.

Though these adjustment mechanisms do offer greater flexibility, and can be useful tools during the budget cycle, if the adjustment process becomes simply a vehicle for reopening decisions, the advantages it affords will be lost.

Reopening decisions too frequently undermines stability. To avoid or discourage this, there should be specific procedures and someone responsible for managing the adjustment process, such as the appropriations committees. In considering this issue, however, we urge that the adjustment process be limited to matters that cannot await the next budget cycle.

I wish to now offer some thoughts regarding two adjustment mechanisms in particular--indexing entitlements and impounding funds.

Indexing entitlements

Allowing the Congress and the President flexibility in setting cost-of-living adjustments for indexed entitlements through the budget process would ultimately achieve increased control over a major portion of the budget. This view is based on the following considerations.

1. Explicitly indexed programs now account for about one third of the budget. To exclude from consideration the cost-of-living adjustments unnecessarily limits the options available to the Congress as it seeks ways to constrain the budget.
2. The indexation of entitlement programs has been a major factor in the growth of that portion of the budget that is uncontrollable in the short run. Adjustments to indexation are, we believe, indispensable if the Congress and the President are to regain permanently an increased measure of short-run control over the budget.

One basic option available for adjusting the indexation process would be to give the President authority to modify the amount of the index through the budget process. The President could be authorized to recommend a specific percentage adjustment to benefit levels that would take effect unless the Congress acted to change it.

Clearly, any reduction in indexation could adversely affect the lives of truly needy recipients. One way of overcoming this problem is to authorize the President to use differential rates of indexation for different programs or at different levels of income of beneficiaries. The overall objective, however, should be to permit the President and the Congress each year to make decisions on indexation based on budgetary and economic considerations.

The impoundment process

Enactment of the Impoundment Control Act constituted an important step in reassertion by the Congress of greater control over the Federal budget. The Act generally requires that impoundments be reported to the Congress and gives ultimate control through endorsement or denial of reported proposals.

There are two types of impoundments, rescissions and deferrals. Proposals to rescind budget authority allow the withholding of budget authority for 45 days of continuous congressional session after the day on which the request is first received by the Congress, during which the requisite legislation may be enacted. Deferrals allow the withholding of budget authority until rejected by either House. However, they may not be used to rescind by withholding for the entire fiscal year budget authority provided only for that fiscal year.

Since passage of the Impoundment Control Act in 1974, GAO has been heavily involved in the operation of the Act, as it is the agency statutorily responsible for reviewing Presidential impoundments. Specifically, GAO receives from the President copies of special messages, containing one or more proposed impoundments that he has transmitted to the

Congress. As promptly as practicable, we issue impoundment reports under section 1014 of the Act, 31 U.S.C. 1404, which inform the Congress of the facts surrounding the proposed impoundments, including their probable effects. We also report on the legal sufficiency of proposed deferrals. Section 1015, 31 U.S.C. 1405, authorizes the Comptroller General to report to the Congress any impoundments that the President has failed to report. We also regard section 1015 as authorizing the Comptroller General to report to the Congress when an impoundment report by the President has been misclassified, e.g., a deferral should have been reported as a proposed rescission. Section 1016 of the Act, 31 U.S.C. 1406, authorizes the Comptroller General to sue the Executive to compel the release of impounded funds when such release is required by the Act.

In addition to our reports on special messages, we respond to congressional inquiries concerning the proper operation of the Act and issue legal opinions on issues of general application in the impoundment area. Recently, we have experienced unprecedented activity and congressional interest in the impoundment process, as the executive branch makes increasing use of its authority under the Act as a budgetary tool. We have attempted to expedite our reports, including those on the President's special messages, by informal discussions between members of our legal and audit staff, and agency and OMB officials.

Although we believe that the basic framework of the Act is sound, we suggest consideration of an alternative that preserves the balanced relationship between the executive and legislative branches, while improving operation of the Act. Under the alternative, provisions in the Impoundment Control Act concerning rescissions would be repealed and all withholdings of funds would be proposed as deferrals, with the President indicating which of the deferred budget authorities he wished to have rescinded. Our alternative would also amend the current law (1) to require for each deferral of fiscal year funds that the

President specify a date beyond which it would be impractical to obligate the funds involved and (2) to require that the funds be made available for obligation on the specified date if there has been no final legislative action on a request to have budget authority rescinded.

Our alternative retains two basic elements of the present Act: (1) rescission would result only with the concurrence of both Houses of Congress and (2) withholdings of budget authority may be defeated by either House.

Uniform treatment of all impoundments was a feature of many bills introduced prior to passage of the Impoundment Control Act. The distinction between rescissions and deferrals in the Act was the product of conference consideration of House and Senate bills with widely divergent approaches to the impoundment process.

Treating all withholdings as deferrals has several advantages over present law. It recognizes that the Congress might oppose a proposal to rescind, but support a delay in the use of the funds. Present law does not provide the Congress with this option. Administration of the Act would be simplified by eliminating the need to distinguish between deferrals and rescissions and by eliminating the need for the Congress to respond within a fixed time.

If the basic framework of the Act is to be retained, we suggest a number of refinements to streamline and clarify its operation.

(1) Amend the period for congressional consideration of rescission proposals to 60 calendar days.

Under section 1012(b) of the Act, 31 U.S.C. 1402(b), budget authority proposed for rescission may be withheld from obligation during the 45-day period of continuous congressional session provided for congressional action on the rescission proposal. Calculating the period in this way causes significant extensions of the proposed rescission and its withholding period when the period is interrupted by congressional recess. Furthermore, it is difficult to accurately predict when the period will expire due to the unpredictability of the congressional schedule.

We suggest that sections 1011(3) and 1012(b) of the Act, 31 U.S.C. 1401(3) and 1402(b), be amended to provide that the period during which funds can be withheld pending congressional approval of a rescission bill be calculated in terms of calendar days. This would allow all parties to the impoundment process--Congress, the executive branch, and GAO--to determine at once the latest date for withholding funds proposed for rescission.

(2) Allow affirmative rejection by one House of rescission proposals.

Under the present statute, the only means for the Congress to reject a rescission proposal is to allow the 45-day period to expire without congressional approval of the proposal. We believe the Act should be amended to allow the Congress to reject a proposed rescission without waiting for the statutory period to expire. This could be done by a simple resolution of either House expressing its rejection of the proposed rescission. In our view, incorporating such a feature into the Act would minimize the impact on programs of withholding funds proposed for rescission for which no rescission bill is passed.

(3) Require the President to stipulate a date beyond which deferred fiscal year budget authority could not be prudently obligated.

Section 1013(a)(3) of the Impoundment Control Act, 31 U.S.C. 1403(a)(3), requires the President to specify in a special message the period of time during which budget authority is to be deferred. Under the present procedures, the President informs the Congress as to whether the proposed deferral will be for the entire year or for part of the year. Without further specifying the duration of a deferral, a potential for abuse exists since at some time they may mature into de facto rescissions because of limitations on the period of availability of the budget authority.

We recommend that section 1013 be amended to require a statement specifying how long a deferral is to last in the case of a part-of-year deferral and, in the case of a deferral proposed for an entire year, whether a similar action is contemplated for the next year. In addition, the Act should provide that at the end of the specified period of a proposed deferral, the President should either release the funds or notify the Congress that the funds will be withheld for an additional period of time. Implementation of this recommendation would better inform the Congress of the precise duration and potential impact of the proposed deferrals.

(4) Provide, where the Comptroller General reports that an improperly classified impoundment has been sent by the President, that any time limits imposed by the Act be measured from the date of the President's original proposal.

Section 1015 of the Act, 31 U.S.C. 1405, authorizes the Comptroller General to file a report to the Congress when the President has transmitted a special message but has incorrectly classified the impoundment proposal. Although the Act does not specify a date, it is our position that any time limits under the Act commence on the day after our report is received by the Congress.

We suggest that the Act be amended to specify that the effective date is the date of the President's report. This would discourage any attempts to lengthen the withholding period by initially classifying a rescission proposal as a deferral. Such an amendment would also help to clarify that a Comptroller General's report that the President should have reported a rescission has the same effect as a special rescission message transmitted by the President.

Fiscal policy considerations

In addition to the budget process and administrative reforms being discussed in the Congress, there is another very pressing issue I would like to discuss today. That is the fact that our economy is in the midst of a severe recession; yet, we persist in sending mixed signals to the financial and business communities by simultaneously embracing a restrictive monetary policy and a stimulative fiscal policy. Many economists predict the economic uncertainty will continue. The conflict between monetary and fiscal policies will increase as future budget deficits overstimulate an economy already weakened by a restrictive monetary policy designed to squeeze out the recent inflationary trends.

I believe there is a growing recognition that it is the mix of fiscal, monetary, and, at times, income policies that affect economic conditions. In the final analysis, integration will depend on the Administration, the Congress, and the Federal Reserve Board agreeing on the long-range goals and policies necessary to achieve those goals.

In response to a congressional request, we consulted a wide range of senior economists and convened a panel of experts to discuss current economic conditions and the costs and benefits of policy changes. Government, business and financial leaders were consulted for their perspectives on current policy, in particular on the effect of high interest rates. Simulations were run on macroeconomic models to test several options for monetary and fiscal policy.

We shared the view that action is needed to reduce substantially the deficits projected for future years. We took no position at that time on the detailed composition of actions needed to close the future budget deficits. As a practical matter, however, we believe it will be necessary for the Congress to constrain the growth of both entitlements and defense spending, while also generating additional revenues. Therefore, if these deficits are to be constrained to levels consistent with long-term economic growth, even greater restraint will be required in other areas, or further increases in revenues beyond those that would otherwise be necessary.

Despite concern over the size of projected budget deficits, few economists support a constitutional amendment to require a balanced budget. This reflects both a general skepticism that such an amendment would achieve its stated purpose and the concern that, if effective, the amendment would constrain inappropriately the Federal Government's ability to carry out an effective economic policy.

In general, the dominant view supports an approach to economic policy built around the following principles:

1. Policy should be based on a long-run objective of moderating inflation.
2. Unemployment should not be reduced by either expansive monetary or fiscal policy to levels where inflationary pressures are renewed. The exact magnitude of a non-inflationary unemployment rate is the subject of some debate among economists, but it is now generally thought to be substantially above the 4 percent to 5 percent rate traditionally used as a benchmark.
3. Adjustments in policy should be gradual and moderate so as to minimize uncertainty and instability in financial markets and investments.
4. Long-run growth should be a paramount goal in policies to stimulate investment in the economy.
5. Monetary and fiscal policy should be based on a consistent and achievable set of long-run employment, price level, and economic growth goals for the economy.

In the present circumstances, these principles suggest a moderate easing of monetary policy and a concerted effort to reduce substantially the budget deficits now projected for fiscal year 1984 and beyond.

CLOSING

In conclusion, I will like to say that I am greatly encouraged by the scope and depth of the Congress' current concern for administrative reforms. In particular, the time, effort, and interest shown by the members of this Task Force in improving the budget process is very commendable. As you go through the arduous task of budget reform, keep in mind the need build into the process stability, flexibility, control, and simplicity. If we can move to a greater use of longer-term and advanced budgeting and, in the near future, to a biennial budget; take care of the funding gaps problems, simplify the impoundment process, and eliminate as many of the hurdles in the process which provoke confrontation, much progress will have been made.

I offer whatever assistance we can provide as you continue with this work.

Mr. **Beilenson**. Thank you for your very thoughtful testimony, sir.

Are there questions?

Mr. **Rhodes**. I just want to thank Mr. Bowsher for coming here.

Mr. **Beilenson**. And he is leaving behind 53 pages.

Mr. **Rhodes**. I am looking forward to reading it later.

Mr. **Bowsher**. Well, we have worked pretty hard and I think you will see some unique ideas in there that have not been put forth before and it is long and that is why I tried to summarize it today.

Mr. **Bonior**. I would like to express the same sentiments as Mr. Rhodes in appreciation for your testimony and we look forward to going through this.

Mr. **Beilenson**. We shall go through your longer statement very carefully. We appreciate it very much. We may get back to you to discuss this.

Mr. **Bowsher**. We would be pleased to meet with you and your staff to discuss some of these issues outlined here.

Mr. **Beilenson**. Thank you very much for your testimony.

Mr. **Bowsher**. Thank you.

Mr. **Beilenson**. Statements have been submitted by Senator Mathias and Senator Hollings. Without objection, these statements will be made a part of the record, as through read, of today's hearing. We are adjourned until the call of the Chair.

[The statements referred to follow:]

STATEMENT OF HON. CHARLES McC. MATHIAS, JR., A U.S. SENATOR FROM THE STATE OF MARYLAND

Mr. **Mathias**. Mr. Chairman, and members of the House Rules Committee, I appreciate the opportunity to submit testimony this morning on the Congressional Budget and Impoundment Control Act of 1974. The Budget Act has proven to be one of the most significant reform measures passed by the Congress since the Legislative Reorganization Act of 1946. But there is always room for improvement.

As chairman of the Senate Rules Committee, I am well aware of both the dramatic changes in substantive aspects of congressional budgeting and of the institutional changes in the budget process that have occurred since 1974. I am also aware of the need to examine our own reforms; some may have brought as many new problems as they have solutions to old problems. And, I might add, experience teaches that no existing statute nor any new statute will, in itself, be sufficient to save us from ourselves. So I comment the committee for providing a forum to examine both the accomplishment and failures of this ambitious innovation in congressional procedures.

I would like to focus my testimony this morning on the broad policy issues that underlie the congressional budget process. Mr. Roth, Chairman of the Senate Governmental Affairs Committee; the Ranking Minority Member of the Senate Rules Committee, Mr. Ford, and the Senator from Indiana, Mr. Quayle, have eloquently and knowledgeably focused on the intricacies of the budget process, and I will not attempt to cover that same ground. Three major issues are of special concern to me. The first is a national public policy.

The original intent of the Budget was to provide, in the first concurrent resolution on the budget, an opportunity for Congress to debate the relative priorities of social, defense, and other expenditure programs within the Federal budget and the size and composition of revenues and the public debt. Actually, we intended to make this a requirement, not merely an opportunity for debate. Regrettably, this has not occurred. Instead, the first concurrent budget resolution has become identical to the second or final budget resolution—binding instructions to the Congress on money amounts in specific programs—not a broad policy debate on national spending priorities.

My second major concern is on the question of time, and here I would again commend my distinguished colleagues, Senator Roth, Senator Ford, and Senator Quayle, for the changes they suggest. A 1-year congressional budget process simply does not allow enough time for all that the Congress is attempting to do in this single, systematic legislative procedure. Nothing better dramatizes this inadequacy of time than last year's 1,000-page reconciliation measure. As you remember, the Senate was limited by the Budget Act to 20 hours of debate on that reconciliation measure—20 hours to attempt a thoughtful consideration of changes to the entire body of public law. And these changes, I need not remind you, were changes affecting every American. I would recommend that you pay special attention to the amount of time provided for consideration of reconciliation measures, be they changes in spending levels or increases and decreases in taxation, which might be specified in a new, 2-year congressional budget process.

The third concern I have is over the committee system. The Budget Committee has become a super-committee within a budget process that is beginning to encompass everything. Is this what we really had in mind in 1974 when we passed the Budget Act? I think not.

Mr. Chairman, I would not wish to conclude this short statement without noting the major accomplishments of the new budget procedure, and much of its success is due to the tireless work of those such as my distinguished colleague, Senator Domenici, and the entire membership of the Senate Budget Committee. We now do have a single budget procedure that draws together all aspects of Federal spending, Federal revenues, and the public debt into a single legislative package. Therefore, we now have the opportunity to debate the whole of the Federal Budget at the same time we debate its constituent parts.

A second major benefit provided by the Budget Act is that it provides a time-table for congressional actions on the budget. Nothing is more vexatious than never knowing when something is going to be considered—in committee, on the floor, or in conference. A timetable for a budget process has been a great step forward.

The third accomplishment of the budget process is more intangible. Here I speak of an elevation in our debate on the budget, in the clarity with which we frame these issues, and in the public's perception of the budget issues which we are attempting to resolve.

As an original cosponsor of the Budget Act, I am encouraged by the recently implemented process imposed under the 1974 act. These procedures have forced Congress to approach spending in a much more orderly way and with greater responsibility. Remember that just a few years ago the projections of future year expenditures were secrets closely guarded by the executive. The provisions of the act have corrected this foolish practice and I am optimistic that they will go a long way toward solving the other problems that results in overspending by the Federal Government. Just recently we saw this budget process work when consideration of any new spending bills for the present fiscal year was blocked pursuant to the provisions of the 1974 act. I believe that this new system can work. It is too early to give up on the budget process now in force. It is still in its embryonic stage. Let's give it a chance to grow and prosper.

Hearings such as this will make a substantial contribution to that effort.

STATEMENT OF HON. ERNEST F. HOLLINGS, A U.S. SENATOR FROM THE STATE OF SOUTH CAROLINA

Mr. HOLLINGS. Mr. Chairman and members, I appreciate the opportunity to appear before your task force to comment on the budget process. I have served on the Senate Budget Committee since its inception in 1975 and as its chairman during the latter part of 1980. I have been present during the evolution of the congressional budget process and, as chairman, guided the first reconciliation bill through the Congress.

I would like to comment on how the Budget Act has worked since 1975, respond to some criticisms that have been leveled at it, and address the need to amend it.

On the whole, the Budget Act has been a valuable and necessary tool in managing the fiscal policy of the country. It has shown itself to be neither the panacea that its supporters hoped for nor the pariah that its detractors feared. It has provided the Congress with an independent means for determining the Nation's budget and fiscal priorities. That result alone may be its most significant and, perhaps, its most lasting accomplishment.

The Budget Act has also exhibited the flexibility to respond to different situations. But this virtue has also demonstrated that the Budget Act is a political process, subject to all of the human frailties of any such endeavor. To be effective, the congressional budget process must have credibility and honesty. And it must inspire the political courage to make us back up words and intentions with resolve and action.

The attention given to budget issues and the controversy surrounding them the past 2 years have strained the workings of the budget process and highlighted some of the presumed shortcomings in the act. The experience of these years has no doubt contributed to many of the complaints we hear today.

But while there is merit to most of these criticisms, a closer examination of them will reveal that they are not so much a result of the budget process but of the way that process has been put to work recently. Let me address, briefly, two of the major complaints.

One much expressed fault of the budget process we hear is that it is too time consuming, that it has dominated the congressional calendar, forcing aside consideration of other issues. That the budget deliberations this year and last have seemed to drag on for the entire session cannot be denied. I feel that I have spent more time on budget issues these past 2 years than I probably did during the preceding 6.

Yet that is not the fault of the process. This year and last, Congress committed itself to the most massive redirection of fiscal policy in modern history. In 1981, the reconciliation process cut $135 billion from Federal spending through fiscal year 1984. This year, we again cut spending by an addition $40 billion through fiscal year 1985. And this does not include the $750 billion tax cut last year or the $98 billion tax increase this year.

Considering the magnitude and controversy of the legislation, it is little wonder that a lot of time was spent on it. In fact, it would be very distressing had we not spent considerable time on such major issues.

But despite all the attention given to budget issues, this Congress has still managed to enact 145 public laws in the first session and 121 so far this session. Clearly, Congress is able to get other important work done.

Another complaint that has surfaced repeatedly is the omniverous appetite of the reconciliation process. The 1981 Reconciliation Act, which I cosponsored in the Senate, achieved the largest spending reductions in our history and was a major step in getting Government into the black. Unfortunately, some of the provisions of that bill were totally unrelated to achieving budget savings—that sole purpose of reconciliation. Also, a few sections were included without sufficient consideration of their ultimate effects.

Yet neither of these effects distinguishes the reconciliation bill from many other statutes. Amendments unrelated to a bill's original purpose are often adopted during the legislative process and ill-considered provisions, unfortunately, have found themselves into previous laws.

More importantly, these abuses can be limited and controlled if we have the desire to do so. Before the Senate consideration of last year's reconciliation bill, the leadership on both sides of the aisle met to delete those provisions of the bill that were totally extraneous to the purpose of saving money. I was part of that group, and while we were not totally successful in eliminating all such sections, we did agree to delete many of those unrelated to reconciliation.

As for correcting ill-considered provisions, again we have considerable precedent to guide us. Take, for instance, last year's elimination of the social security student benefit and the provision in the 1981 tax bill allowing companies to lease their tax losses. When the effects of these actions were realized, Congress modified the laws to keep with the original intent or prevent abuses.

Mr. Chairman, no one has ever argued that a democratic legislative process is efficient, but it is self-correcting.

I would point out that this year, there were many fewer and less serious examples of these abuses than the previous year. It seems we are learning, albeit slowly, the lessons of our excesses.

Also, the Budget Act recognized that additional time would be required in imposing another layer of budgeting on the then existing process. The act delayed the start of the fiscal year by 3 months to allow Congress to work the new process into its schedule. Further, the act shows it has the flexibility to meet new situations.

In 1980, we recognized that the time allowed for reconciliation contemplated in the Budget Act (in connection with the second budget resolution) was not sufficient. Therefore, we adopted reconciliation in conjunction with first budget resolution. This provided much more time for committees to consider means of achieving the required savings.

Neither of the complaints I have mentioned documents a fundamental flaw in the budget system. They merely demonstrate that no human process is immune from the shortcoming of its participants.

While I do not regard these complaints as sufficient cause to amend the Budget Act, I view with great concern another aspect of the budget process, one which strikes at the keystone of the process yet is, unfortunately, beyond the power of any amendment to change. I speak of the integrity of the budget process itself, both as to the budget estimates used and the procedures employed in fashioning a budget resolution.

The budget process can be no more credible than its component parts. If the numbers disguise the true budget picture, as best the experts can determine, or the procedure relies on gimmicks to avoid reality, the resolution will have little credibility, and the Congress and the Nation, not to mention the budget process, will suffer.

It is true that budgeting is an inexact science. It cannot be done by computers or models alone. It requires a good deal of professional skill and judgment. That is why the act established the Congressional Budget Office. That Office provides the legislative branch, regardless of the party or parties in control, with impartial, nonpartisan analytical capabilities so that it is not, as was true for so many years, at the mercy of the budgeteers at the Office of Management and Budget in the executive branch.

This is an instance where the procedure is adequate. But the process does not prevent us from ignoring CBO's counsel, if we choose, and increasingly in recent years, we have chosen to do just that. Last year and this, the Congress brushed aside the advice of its own Budget Office and adopted, for political expediency, a set of budget estimates which not only originated in the executive branch but which significantly underestimated outlays, thereby obscuring the likely course of Federal spending.

The plain fact is that budget estimates from OMB must always be taken with a grain of salt until ratified or revised by an independent CBO.

In addition, the budget process must, periodically, update the resolution to account for the reality of changing economics and spending patterns, many of which are beyond the control of Congress or the administration.

These have generally been the procedures since the budget process began. But there has been a marked deterioration in the recent past, ranging from inclusion of mysterious "magic asterisks" that, like Pac-Man, somehow gobble up Federal spending and reduce deficits with a single bite, to deliberately ignoring the realities of Federal spending and focusing instead on party rhetoric.

For example, the first budget resolution for fiscal year 1982, agreed to on May 21, 1981, stayed in force as the congressional budget plan until June 23 of this year, over 13 months. This was at a time when nearly everyone realized that the economy was in a recession and the deficits were climbing. Even the President acknowledged at least some of the budget deterioration. Yet our budget persisted in proclaiming a deficit of $38 billion for the year, even though it was known that the likely total was over $100 billion.

What's even more incredible was that that same budget insisted that there would be a surplus of $1 billion in fiscal year 1984—that in the spring of 1982.

The same concern applies to the procedures used to short-circuit both the budget and legislative processes. I have already referred to the de facto scrapping of the second budget resolution last year. The same reasoning applies to this year's open elimination of it. No set of economic or spending assumptions, however good, can be expected to stand up for a year. I fear we are setting ourselves up for another bad faith budget this year.

At least last year's budget resolution, for all its faults, was formulated in the open. This year, in the Senate, the process was entirely different. The resolution was fashioned by a succession of Republican caucuses, first in the committee, then on the Senate floor. In fact, the Senate came to a standstill for 2 days while the majority caucus decided on a budget resolution.

This assembly of a budget resolution behind closed doors is an insult to both the legislative and budget process. Yet, is it a fault of the budget process? I think not. It is again a demonstration that, as was once said of a different Senate at a different time, the fault is not in our stars but in ourselves.

My remarks so far have conveyed, I hope, my belief that significant changes in the budget act to correct abuses are not need needed. Like the balanced budget amendment's admonition against deficit spending, the abuses will be rectified, not by any law, but by ourselves. An amendment cannot correct human behavior any more than a commandment can change it.

I would like to turn to one issue that has generated a lot of discussion lately—a 2-year budget cycle. Some of the proposals would combine this with a 2-year appropriations bill. The reason behind these proposals is to reduce the time spent on budget matters and give more time for other issues, such as oversight.

The current budget procedures provide for two revisions to a budget resolution, one at the beginning of a fiscal year (the second budget resolution) and another about halfway through the year (the so-called third budget resolution). This is similar to the schedule followed by the executive branch which, after transmitting its budget request in January, revises it in July before the start of the fiscal year, and again during the year when the next year's budget is presented.

These two schedules reflect the fact that the longer the period between budget revisions, the more obsolete the numbers become. Witness last year's episode with the first budget resolution. Not only will obsolescence creep in, but the need for additional supplemental appropriations will grow. It is possible that should we adopt a 2-year cycle, we would soon find ourselves complaining not about the use of continuing resolutions to get the government going, but about the need for a series of supplemental appropriations to keep it running.

I doubt that the 2-year cycle would achieve a significant reduction in the budget workload. As I have mentioned, no budget can be expected to stand unchanged for a full year, let alone two. The need for periodic budget revisions and supplemental appropriations to account for the changing economic picture and unanticipated developments would largely offset the savings in time that many of the sponsors of these proposals claim.

The question which must be addressed in a 2-year budget is when and how will it be revised to account for reality. To date, there has not been sufficient attention given to that basic issue.

In conclusion, I applaud this committee for examining the workings of the budget process and how it might be improved. It is a vital element in determining our fiscal policy and any changes in it should be thoughtfully considered. I would caution the committee that many of the criticisms of the act are not its doing and are not likely to be corrected by amendments to it.

No amendment is likely to prevent, for example, the inclusion of extraneous material in a reconciliation bill. If it is the will of a majority in Congress to do so, the provisions will be included, the budget act notwithstanding. It is a far graver danger to build so much rigidity into the budget process that the act itself must be waived or overridden to achieve the will of Congress. That would be the most dangerous and ill-advised method of amending the budget act.

Furthermore, Congress has learned a great deal about the budget process in the past 2 very tumultuous years. The record will show that the perceived abuses of the process are much less frequent today than a year ago. And they promise to be even less in the future. In the face of such progress, it would be tragic to reverse course and introduce more uncertainty through major amendments to the act.

Changing course in the middle of a storm is unwise. It is far better to make major changes during the calm. At this point, we should focus, not on trying to correct things which are already working themselves out, but on providing stability to the budget process and the budget act.

The potential for serious damage to the budget process by ill-considered amendments is great. The process has been the source of enormous contention. It has been stretched and bent. But it is not broken. And in the words of our President, "If it ain't broken, don't fix it."

[Whereupon, at 4 p.m., the task force was adjourned, to reconvene subject to the call of the Chair.]

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